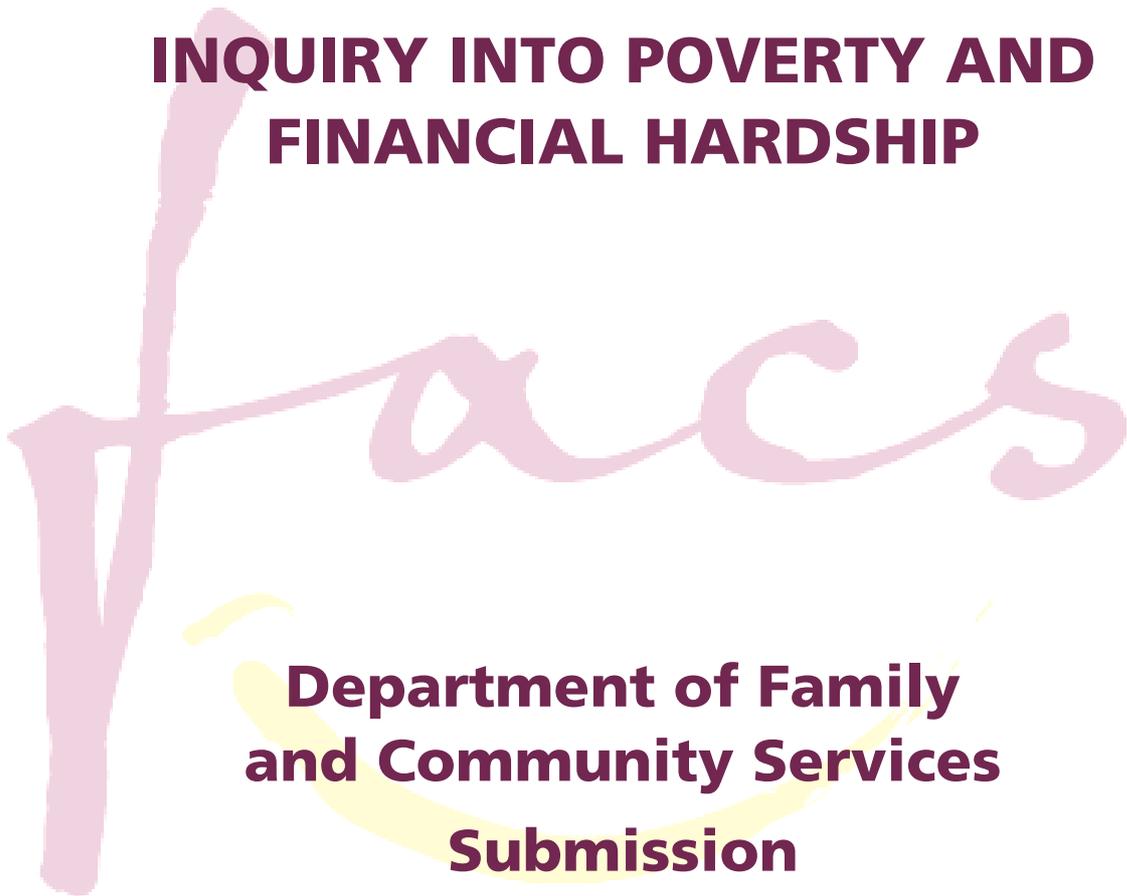


**Senate Community Affairs References
Committee**

**INQUIRY INTO POVERTY AND
FINANCIAL HARDSHIP**



**Department of Family
and Community Services
Submission**

March 2003

facs making a difference

Reverse cover

Note: This version contains corrections to the label on Figures A1 and 14.

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Glossary of Abbreviations

| | |
|--------|--|
| ABS | Australian Bureau of Statistics |
| AIFS | Australian Institute for Family Studies |
| AWE | Average Weekly Earnings |
| AWT | Australians Working Together |
| CAT | Career and Transition |
| CDEP | Community Development Employment Projects |
| CIS | Centre for Independent Studies |
| CPI | Consumer Price Index |
| CSHA | Commonwealth State Housing Agreement |
| CSTDA | Commonwealth State/Territory Disability Agreement |
| CURF | Confidentialised Unit Record Files |
| DSP | Disability Support Pension |
| DSS | Department of Social Security |
| DVA | Department of Veterans' Affairs |
| ECEF | Enterprise and Career Education Foundation |
| EU | European Union |
| FaCS | Department of Family and Community Services |
| FGT | Foster, Greer and Thorbecke's Indicator |
| FHOG | First Home Owners' Grant |
| FTB | Family Tax Benefit |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| HBAI | Households Below Average Income |
| HDI | Household Disposable Income |
| HDIPC | Household Disposable Income Per Capita |
| HECS | Higher Education Contribution Scheme |
| HES | Household Expenditure Survey |
| HILDA | Household, Income and Labour Dynamics in Australia |
| HPL | Henderson Poverty Line |
| IDS | Income Distribution Survey |
| IGR | Intergenerational Report |
| JET | Jobs, Education and Training Program |
| JPET | Jobs Placement, Employment and Training Program |
| LDS | Longitudinal Dataset |
| LIS | Luxembourg Income Study |
| LSAC | Longitudinal Survey of Australian Children |
| MTAWE | Male Total Average Weekly Earnings |
| NATSEM | National Centre for Social and Economic Modelling |
| OECD | Organisation for Economic Co-operation and Development |
| PA | Personal Adviser |
| PPP | Purchasing Power Parity |
| PSP | Personal Support Programme |
| SAAP | Supported Accommodation Assistance Program |
| SIHC | Survey of Income and Housing Costs |
| SPRC | Social Policy Research Centre |
| SWPS | Social Welfare Policy Secretariat |
| TSF | The Smith Family |

Executive Summary

The social well-being of Australians results from the interaction of many economic, social and other factors, and the actions of individuals, families, communities and governments. These processes, and the contribution of each to final outcomes, are complex. However, each is important to the nation's welfare.

These matters are therefore considered in detail in the body of this submission. The submission also considers a number of the dimensions of the concept of poverty, as an understanding of these is central to this Inquiry. The extent of this discussion reflects the many different interpretations and approaches to the measurement of this concept.

The purpose of this Executive Summary is to identify the main lines of discussion in the submission.

Much of the debate on poverty focuses on income poverty. However, the Department believes, in order to develop the right social policy responses, that it should be regarded as a much more complex and multi-faceted concept, with dimensions such as deprivation, disadvantage, social isolation and poor family relationships also being considered. As well, there is a temporal dimension, as outcomes and circumstances change over a person's lifetime. Further, the state of poverty, as often conceived, is a symptom rather than a cause of disadvantage.

The Department does not propose a quantifiable definition of poverty. Indeed we argue that the track record of measurement in Australia and overseas has been poor and, as often as not, obscures rather than illuminates the issues. Rather, the value of taking a wider view of the concept of poverty is that it allows a better analysis of what might best improve social outcomes, instead perhaps of falling into the trap of assuming that improvements in income alone could be the universal panacea.

Responsibility for tackling the multi-faceted dimensions of poverty is not just that of this portfolio, the Commonwealth, or government alone. Rather, social outcomes also reflect individual, family and community responsibilities and the underlying strength and sustainability of the economic, social and physical environment.

In this submission, we focus on both positive outcomes and achievements, as well as outstanding concerns. This is essential to ensure that a balanced understanding of social outcomes is achieved. Further, these successes can provide much guidance as to what works.

We also note that outcomes and circumstances change over people's lifetimes. Analysis needs to differentiate between the short- and the long-term dimensions of these, while policy responses should seek to balance prevention and building individual resilience, with responsibility and capacity to deal with adverse outcomes when they arise. At the same time, the system should be good at addressing short-term need and providing a safety net for those who are unable to support themselves.

The social policy context

Australia has an extensive and robust social welfare system, a core component of which are the income support payments administered by the Department of Family and Community Services (FaCS).

It is a system which reflects the development of social policy by many governments for over a century, and the increasing capacity of the nation to improve outcomes for all of its members.

It provides assistance to millions of Australians. Help is provided to support families in their important responsibilities for their children, to those who are going through difficult periods of their lives and others who are unable to independently support themselves. For older Australians and others with long-term

needs and who are unable to support themselves, it provides secure and sustainable support. The levels of assistance provided under the system are higher than they have ever been.

The outcomes of this assistance and the underlying system are reflected in a society where most people are able to participate as members irrespective of their circumstances.

As with any system it involves balances: between degrees of generosity and the capacity to fund this; between individual needs and responsibilities; in treating many different people with different needs and circumstances in an equitable fashion; and between providing support when it is needed, while ensuring that people actively seek to support themselves where they can, and protection for those who cannot.

In Australia and overseas over recent years an emerging focus has been on the extent to which social support systems encourage self-reliance and active economic participation, rather than passively providing income support.

It is well recognised that achieving these outcomes for some can be hindered at times by the structure of income support payments through perverse incentives, and inadequate reward for effort and complexity.

The Welfare Reform Agenda seeks to address this through policy reviews such as the Reference Group on Welfare Reform (McClure Report), current consultations on working-age payments and initiatives such as Australians Working Together, which represent the initial steps in providing practical responses.

Much though remains to be done and the Government has challenged the Department, along with the broader community, to address these issues in its consultation process *Building a simpler system to help jobless families and individuals*.

Fundamental to this is seeking reforms which ensure that the system encourages and properly rewards those who make an effort, and who gain employment, while it protects those who cannot support themselves. This goal is also reflected in the focus which has been placed by FaCS on economic and social participation. The first of these two goals directly seeks to support greater self-reliance wherever possible and the second acts both as a means to achieve this, and to ensure connectedness with the community as a whole.

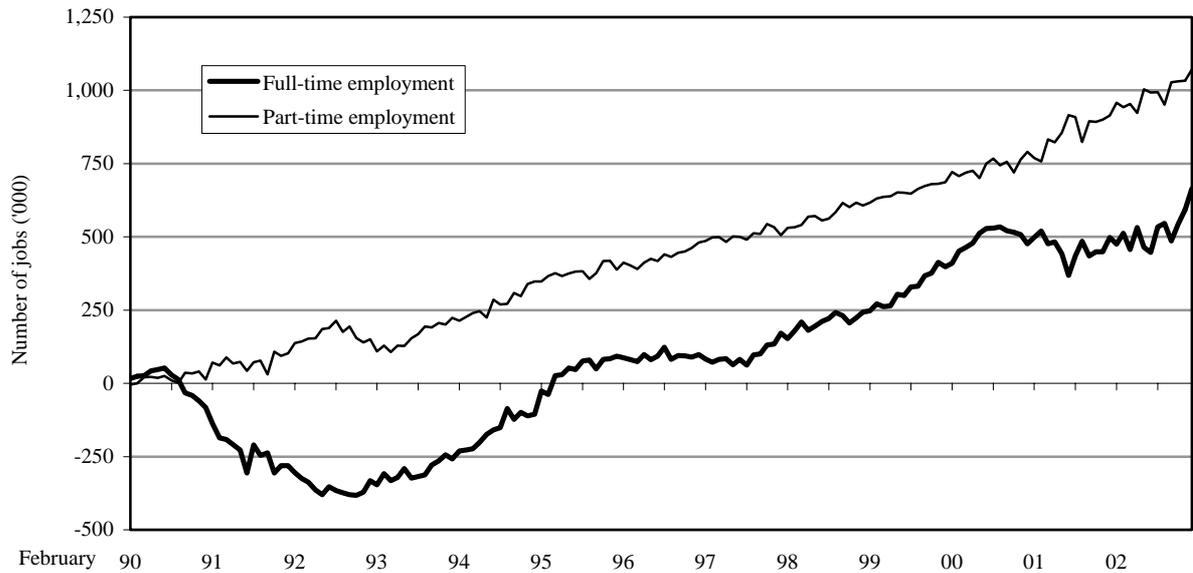
The role of the economy

The economy underpins the welfare of most Australians, and provides the means for governments to take action to assist those in need.

Over the second half of the 1990s there has been strong economic growth. This has resulted in:

- increasing levels of employment and falling unemployment; and
- growth in earnings and household incomes that have been complemented by the reforms associated with the New Tax System.

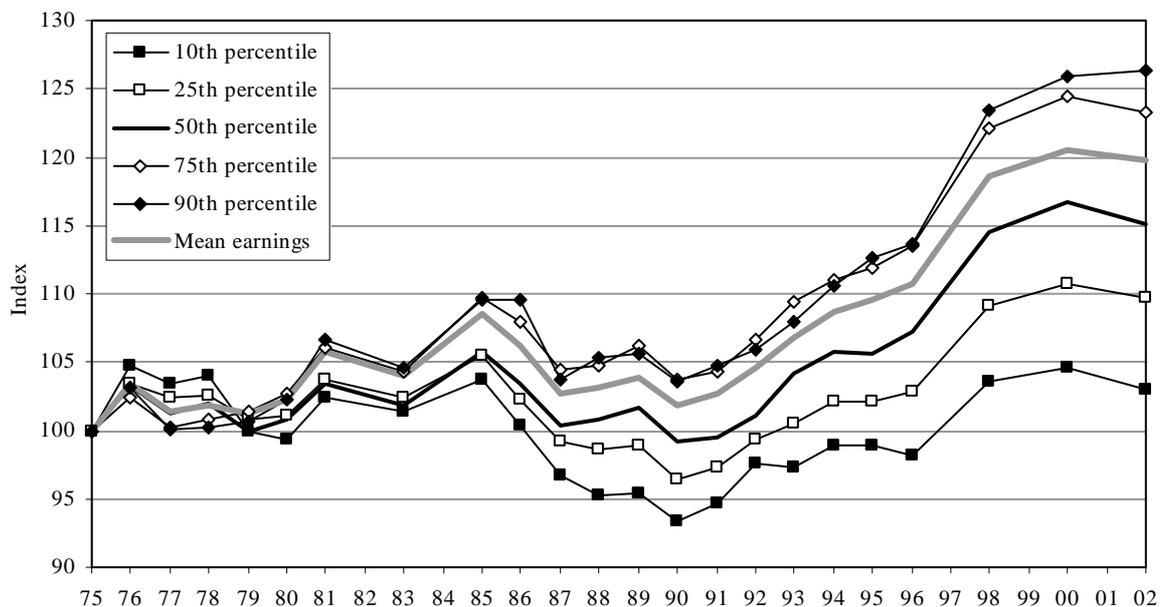
Figure A1: Employment Growth 1990-2003
(refer to Figure 14, page 51)



As figure A2 suggests, the benefit of the growth in earnings has been experienced widely.

- While there has been increased dispersion in earnings this has been accompanied, in recent years, by strong gains in real incomes at the bottom.

Figure A2: Full-Time Employees, Trends in Real Gross Earnings by Selected Percentiles 1975-2002
(refer to Figure 18, page 56)



Maintaining economic growth is the central means for, and a pre-condition to, any policies directed at improving social welfare.

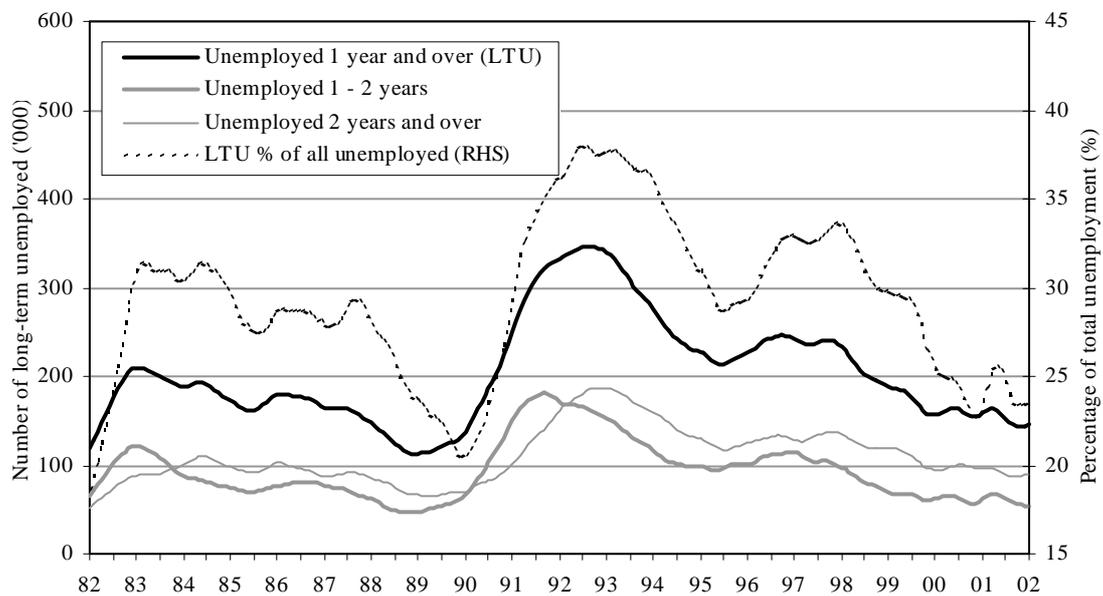
- The extent to which social policies encourage and support this growth, or may act to limit incentives, opportunities and rewards for economic participation, is important.

Social Welfare outcomes

Most Australians, including many of those who use income support and other aspects of government welfare policies, have good standards of living and other positive social outcomes.

- Assistance provided by Government goes well beyond the provision of basic income support, with a large proportion of expenditure being directed at helping families and others who carry particular responsibilities, especially for children; and
 - to assist parents in achieving a work and family balance.
- An important achievement in recent years is a substantial reduction in long-term unemployment.

Figure A3: Trends in Long-Term Unemployment 1982-2002
(refer to Figure 15, page 52)



Despite these outcomes and the widespread improvements shown in the charts above, outcomes for some people and some groups remain of concern. In particular:

- There has been an increase in the number of people of working-age on income support who are, and are likely to continue to be, long-term welfare dependent.
- Changes in the economic and social landscape have placed pressures on many communities and families.
- Poor outcomes continue to be recorded by some groups, particularly Indigenous Australians.
- Concerns remain that, as a society, more can be done for our children to improve both childhood and lifetime outcomes.

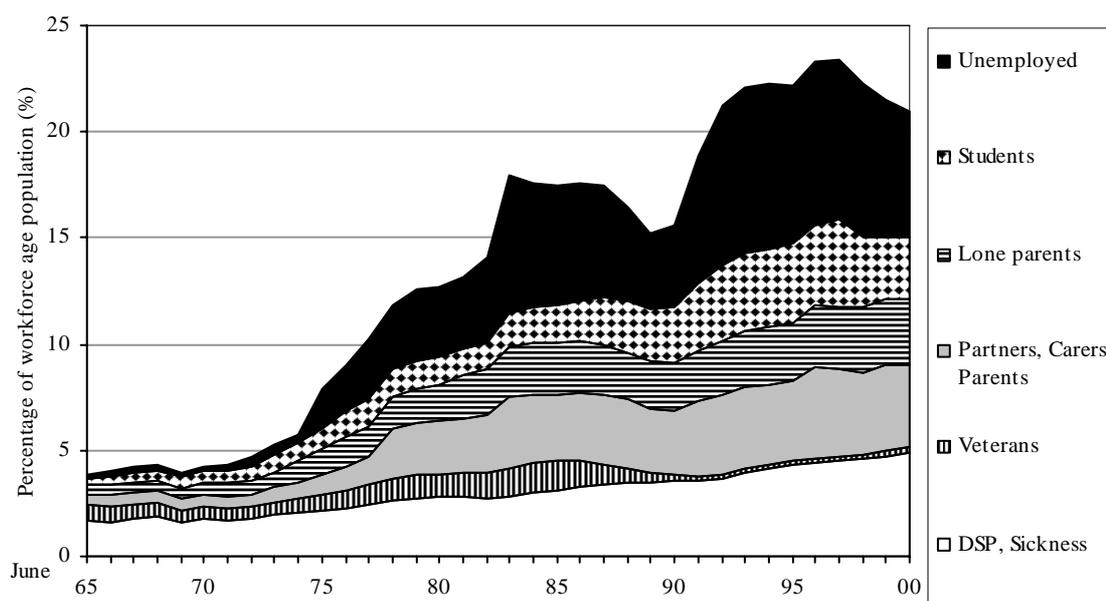
The growth of reliance upon income support by working-aged people (Figure A4) has been a process that has gone on for some decades.

- Many of the issues behind this were considered by the McClure Reference Group on Welfare Reform, and the current consultation process on income support arrangements for those of working-age is considering the role and structure of assistance to this group.

Growth in long-term reliance comes at a time when it is being recognised that population ageing will result in relatively little long-term labour supply growth and increased pressures on government in meeting the needs of the aged.

- From an income support perspective, low participation exacerbates this problem, as people not only experience low incomes at times when they face particular difficulties and needs, but also:
 - they can face problems in achieving economic participation when the initial reason for assistance has ended; and
 - by having reduced economic activity, they are limited in their ability to make savings for their needs in retirement years.

Figure A4: Growth in Working-Age Income Support Recipient Numbers 1965-2000
(refer to Figure 1, page 14)



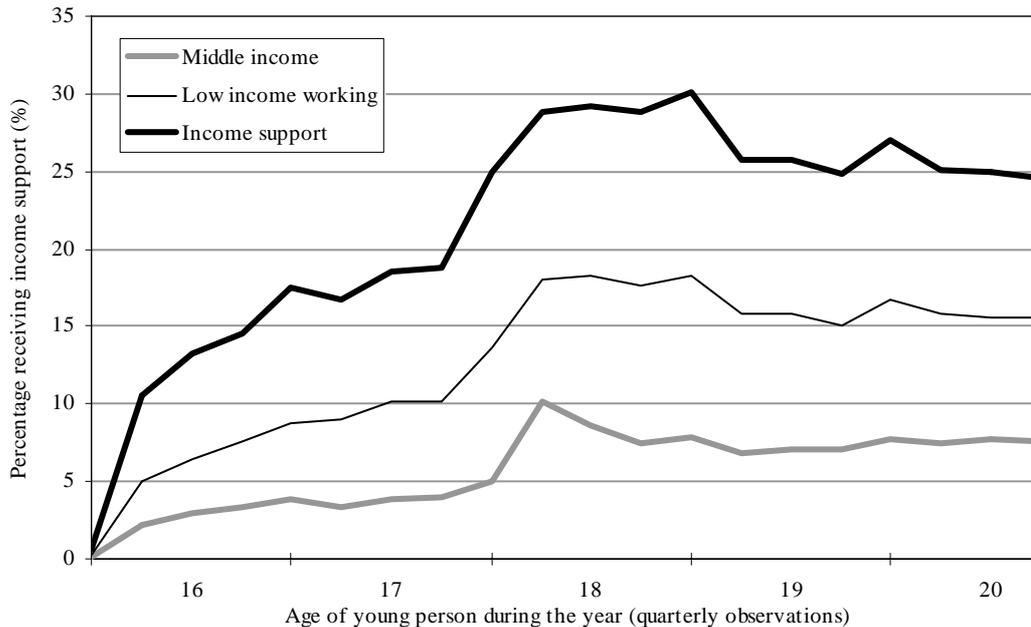
There has been increasing recognition that the problems of those with the most adverse social outcomes are not simple, and cannot be responded to by simple measures such as increases in the rates of income support.

- Rather, for those people with the most disadvantage, their poor outcomes often represent layers of multiple disadvantage where factors such as poor education, unstable relationships, mental health problems and other disabilities, as well as experiences of trauma and poor labour market experience are compounded together.
- Some of these problems have had their roots in early childhood experiences, with some evidence emerging of intergenerational transmission (Figure A5).

Responding to these needs – which have built up over many years – is very difficult. Current policies are aimed at implementing a range of initiatives including:

- Strengthening families – to both limit the exposure of children to poor child raising and build greater resilience.
- Supporting communities – this reflects the need to address concentrations of disadvantage in some communities, for example remote Indigenous communities, supporting those facing change and enhancing the capacity of communities everywhere to support their less well off members.

Figure A5 : Income Support Receipt from Age 16 by Parental ‘Income Status’
(refer to Figure 2, page 16)



- Supporting individual economic participation.
 - Employment appears to have a positive impact that goes beyond its effect on income.

Economic participation, balanced by protection of those who cannot support themselves, represents a key thrust of policies:

- It is a focus of the current consultations on the reform of working-age income support payments and welfare reform more broadly.
- It is critical to family policies that seek to enable parents to achieve appropriate work and family balance.

It is, as noted above, vital to long-term outcomes including those of people in their retirement.

For those with most disadvantage, many specific initiatives have been developed, including: the Personal Support Program, Personal Advisers, Reconnect, the Family Relationship Services Program, the Jobs, Education and Training program, and the Community Development Employment Projects.

- The best of these services are increasingly offering an individual focus, considering the range of individual needs and circumstances in a holistic way and offering packaged responses that provide a tailored range of assistance.

It is recognised that, in the longer term, programs that are focused on early intervention represent the strategies with the highest potential to address these most severe outcomes.

- A range of early childhood support programs help to provide parents and children with ways to break cycles of disadvantage. These include access to professional child care, parenting assistance, playgroups and home visiting programs. A number of these initiatives are being trialled to assess their effectiveness.
- Community based measures such as the Stronger Families and Communities Strategy and a range of regional initiatives aim to build social capital and the range of available social support. The literature on social capital suggests that there can be strong spill-overs in terms of individual behaviour by building more connected communities.

These programs, though, not only take considerable time to develop and implement, but also can have long lead times before the benefits can be observed and can impact on social outcomes.

Issues of poverty measurement

The breadth of issues and factors involved in sustained disadvantage suggests that broad definitions of poverty are important concepts for social policy formation and that pursuing traditional concepts of income poverty not only fails to assist in this, but runs a real risk of diverting policy goals and priorities.

The submission details a number of limitations of traditional income poverty measures.

- They measure low incomes relative to other incomes, rather than any of the senses of poor outcomes conveyed in the concept of poverty.
- They are sensitive to many assumptions and technical choices, including the specific poverty line to be used, and there is little agreement on these questions.
- They rely upon data from income and related ABS surveys, and there is increasing evidence that these have not been recording low incomes well.
- They use static cross-sections of experience that are often unrelated to both medium and longer term outcomes.
- Australian and overseas research suggests that these measures perform poorly at identifying those with particularly adverse outcomes.

As a consequence of these limitations, results can be highly contradictory.

- Many studies reveal apparently high levels of poverty, despite the fact that income support payments and wages are generally above the poverty lines used.
- Australia shows high levels of poverty in some international studies, despite the fact that Australian living standards are often much higher than in some of those countries ranked as having low poverty.
- Poverty can fall as a result of declining earnings across the community – but increase even when the ‘poor’ have had real gains in earnings.

In addition to the flow of research that the Department conducts and funds, which helps provide a more balanced understanding of the issues of poverty, alternative approaches to these limited income measures are beginning to become available.

- Deprivation measures are particularly valuable in identifying those with poor outcomes, and these are now being included in a number of major survey programs.
- Given the emerging understanding of disadvantage, it needs though to be recognised that what might be defined as an experience of poverty for many groups is a result of their disadvantage, rather than its cause.

Conclusion

An inquiry into poverty has the potential to bring together an understanding of the many positive outcomes of Australians and recognise the challenges we face to address the needs of those who are less well off, as well as the need for reform of a number of aspects of existing programs and the constraints governments will face from demographic change.

To identify the important aspects of disadvantage and hardship, and the policy and community responses to these, it is important to:

- recognise that income support is only one aspect of the response to immediate and longer term need, and that it can impact in both a positive and negative manner;

- understand the critical importance of employment and economic management to social outcomes in our society;
 - and the need for the structure of income support payments to encourage active participation and improved employment outcomes, as well as adequate protection for those who cannot support themselves; and
- note the initiatives that have been developed in recent years to deal with these issues including the focus on strengthening communities, capacity building and on the range of factors underlying individual choices and behaviour.

This submission provides a guide to these issues.

Part 1: A Cohesive Social Policy Response

Chapter 1 Introduction and context

Chapter 2 Lifetime participation and social welfare

These two chapters consider the social and economic framework of social policy in Australia. Discussion identifies the main drivers of social policy and the reasons why a strong emphasis has been placed on developing policies that focus on supporting economic participation across the lifetimes of Australians.

1. Introduction and context

Most Australians enjoy a high, and increasing, standard of living. This is the result of the combined impacts of a strong and growing economy and an extensive social welfare system that has been developed, over time, to respond to the needs and circumstances of households and individuals.

Notwithstanding this framework, at times the outcomes for some individuals and households are poor. The nature and causes of these negative outcomes are diverse and reflect individual circumstances and capacities and the interaction of these with the social welfare system and the labour market.

Economic management is a critical factor. For example, the recession of the early 1990s saw the loss of 313,600 jobs between July 1990 and February 1993 and a 98.7 per cent leap in the number of unemployed people. The total number of unemployed people increased by 461,700 between October 1989 and July 1992. Experience shows that, as well as the immediate impacts of unexpected unemployment on families, the consequences of such economic recessions often persist through many years of economic growth. This can be seen, not just in regard to the level of growth required to restore employment levels and reduce unemployment, but also in the time required to restore national budgets. Implicit in the requirement for responsible economic management to ensure community growth and well-being is an obligation on government to support an environment that enables the capacity of individual businesses to prosper and grow.

Thus, while this portfolio's responsibilities do not extend to these issues of economic management, we would acknowledge their primary role in addressing the questions being considered by the Committee. They are also critical to the responsibilities of the Department of Family and Community Services (FaCS). The Department's vision is to:

“create a fair and cohesive Australian society by strengthening the capacity of individuals, families and communities to contribute to, and benefit from, greater involvement in all aspects of life.”

The portfolio is responsible for income support, housing policy, community support, disability services, child care services and family support, including family payments, child support and family relationship services. It also contributes advice to the Government on the social policy implications of wider government policy including taxation, superannuation and savings policy.

Poverty is a complex concept

Good policy needs a good definition of the problem

The Terms of Reference for this Inquiry refer extensively to the extent of 'poverty' without seeking to define or specify the meaning of the term. The experience of this portfolio, over many years of engagement and leadership in social policy debates, is that, when attempts are made to draw any quantitative conclusions on the incidence of poverty, a significant challenge that has to be confronted is to define the concept in terms both that are measurable and also that reflect the specific concerns that the analysis seeks to address. Specifically, our experience is that, without this level of precision and rigour, there is a high risk of analysis confusing the real and important issues of hardship and disadvantage, that the concept of poverty usually encompasses, with measures that simply classify households on the basis of reported current income and which ignore the actual living standards of households.

On the basis of involvement in policy and program development and delivery we would emphasise that this caution is not simply of academic or bureaucratic concern, but rather it lies at the heart of any assessment of the need for, and the nature of, a policy response. That is, if we want to address poverty, we need to accurately specify the term, assess the magnitude of the problem, identify the correct causal factors

and target groups and make any actions taken match the needs and circumstances of these groups. Careful and consistent definitions and measurement are necessary for all these.

While these concerns are relevant to all aspects of social policy, they are critical in regard to poverty. This is because of the strong emotive component of this concept, and the fact that the ways in which poverty is usually measured do not actually reflect these conditions.

Ways of defining poverty

The concept of poverty has many meanings in our society. In general use, the term usually relates to states of material deprivation with inadequate access to basic needs such as food, heating and clothing. It also tends to convey concepts of squalor, hopelessness and suffering as well as loss of dignity and self-esteem. As such it brings with it a powerful moral injunction that it is a state that requires action and, often implicitly, a situation which society needs to address.

A broader concept that extends the relationship between the individual and the community, and one that has gained some currency, especially in European debates, is that of social exclusion. This considers the extent to which individuals and households can fully participate in society as full and equal members. In some ways this measure has much in common with poverty, especially where it extends the concept to cover concerns such as individuals' lack of material capacity to meet needs such as transport and participation in social and lifestyle activities consistent with community norms. However the concept also has a further and quite different dimension. This is the extent to which there are also external barriers that limit people's participation in society. That is, social exclusion does not simply reflect individual resources and capacity, but it is a concept which also encompasses barriers within society that restrain participation. These may involve discrimination on the basis of race, family status or culture, language barriers or legislative or regulatory restrictions. (These latter were, at the time the concept was developed, quite important components of social exclusion in countries that had insurance-based social welfare where individuals were excluded from social assistance.)

While the concept of poverty may convey some, or all, of these different meanings, for much, and indeed most, analysis undertaken in Australia these questions are not asked. Rather a much more simplistic approach is adopted: that of the level of the reported cash income of the household relative to others at a point in time.

It has been pointed out by many researchers over the years that, used in such a way, income is at best only an indirect measure of possible outcomes.¹ This has been confirmed in research that has considered both direct and indirect measures². These have found that low reported income, while indicating a greater propensity for poor outcomes, is a relatively weak predictor of those households with poor social outcomes. That is, many people with low incomes appear to be doing quite well, while others on better incomes show signs of serious disadvantage. There are many reasons for this. Most important is the extent to which poor outcomes are generated by multiple disadvantage, rather than a single factor such as income. In addition there are errors in reporting income, the failure of measured incomes to take account of access to savings and other assets which households use to smooth their income and consumption, the presence of unusually large or small expenditure needs, the diverse community and family structures which support households, and the capacity of households to manage their expenditure.

Income-based measures are also highly sensitive to a large number of technical decisions taken by researchers and advocates. Further, there is much to suggest that the results can be as much a reflection of some of the inherent difficulties of data collection and data quality, as they are of the real experiences and outcomes of households. In considering the results of poverty studies, it is always necessary to make a 'reality check' – are the trends and circumstances identified consistent with other evidence of the real problems of households? These issues are considered further in Chapter 5.

Critically this type of approach, with its sole focus on cash incomes, tends to lead to a simplistic set of policy findings which suggest that the 'poverty' identified can simply be responded to by increases in

transfers to those households with low reported cash incomes, and away from those with higher incomes. As such the nature of the 'solution' is predetermined by the measure used to identify it.

Such a limited approach to analysis also ignores some much more fundamental questions concerning long-term social outcomes and the nature of social policy. These questions ask how social policy can be constructed to support improvements in the living standards of all Australians³ and what forms of assistance are most effective at addressing barriers to participation and supporting individuals' capacity to participate.

The need for these questions to be addressed is an underlying theme in this submission.

Broader understandings of Poverty

Other conceptions of poverty exist; the framework proposed by the Nobel Prize-winning economist and philosopher Amartya Sen, whose work has been committed to human development and social justice, is perhaps the most informative. Sen (2000) has argued for

“the general need for liberating the analysis of economic inequality from confinement to the space of incomes or commodity holdings”

and rather for issues of social justice to

“be assessed not by the incomes, resources or primary goods the persons respectively have ... but in terms of the freedoms they actually have to choose between different ways of living they can have reason to value.”

Much of Sen's approach has been motivated by a recognition that very often debates on inequality and poverty use a false dichotomy of arguments being between those who favour equality and those who do not. This is, he suggests, inappropriate, as the debates are not about whether or not equality is a goal – but rather what type of equality is being sought; for example, of means, outcomes, opportunities and choice.

While much of his analysis has been directed at the experience of developing countries, he argues that a focus on poverty from a capabilities approach has much to offer more advanced economies:

“the reorientation from an income centred to a capability centred view gives us a better understanding of what is involved in the challenge of poverty. It provides clearer guidance on the priorities of anti-poverty policy and helps us to understand better the genesis of poverty in apparently unlikely circumstances (e.g. in the rich countries of Europe and America).” (Sen 1992)

The strength of Sen's analysis is that it recognises the need for institutional and societal structures not only to address the issues of individual resources and capabilities, but also, and very importantly, questions of individual choice and freedom. As Sen (2000, p148) indicates,

“In dealing with responsible adults, it is more appropriate to see the claims of individuals on the society (or the demands of equity or justice) in terms of freedom to achieve rather than actual achievements.”

In this context, a key responsibility for governments is to ensure that their policies enhance, rather than regulate, these freedoms and that systems encourage personal responsibility and activity, upon which individual choice must be based.

In providing a focus on the nature of capabilities it also highlights the critical questions of the responsibilities within society to provide people with these. Predominantly these reflect factors such as the quality of education and the quality of parenting available to children, the extent to which women have equal opportunities and so on.

While this approach provides a powerful tool to analyse social structures it has been less able to be developed into a measure that can be used for quantifying outcomes. Even when it has been used, at a

more basic level, within the United Nations Human Development Report, significant problems have arisen⁴.

Nevertheless the perspective this broader approach provides is critical if policies seek to address poverty and, most critically, its causes. This is reflected in the priorities identified in this submission concerning promoting participation, program focus on early intervention, and avoiding the narrow limitations of 'income poverty' analysis.

Australia's social welfare system involves many public and private actions and responsibilities

The welfare of Australians is the product of complex interactions of private and public activities. At the core of these is the strength of the nation's economy and the capacity and resilience of Australia's business sector. Most households are reliant upon earnings from employment. The capacity of the economy to provide these, both now and in the future, not only assures the welfare of these households, but also the tax bases for both Commonwealth and State governments to fund transfer payments and services to the aged and others not involved in economic activity. Increasingly important also is the capacity of the economy to generate returns for those who have invested their savings in superannuation and other investments.

Complementing this economic structure is an important framework comprising individual, family and community roles and responsibilities. This framework is not only crucial to the welfare of the community, but is also a fundamental dimension of our society. It includes the responsibilities of parents for their children, and other forms of caring within families, whether this be for aged and disabled relatives or support for family members when facing crisis, such as relationship breakdowns and unexpected financial need. Broader community and philanthropic initiatives extend these forms of care much more widely across the community.

Understanding the welfare outcomes of Australians requires account to be taken of each of these components. Similarly the assessment of social policies cannot simply be limited to the direct effects of expenditure, but must also consider the impact of the taxation and other policies needed to fund this, and the effects of both of these on the social networks and individual incentives and responsibilities.

Two important aspects are ensuring that policies and programs, including taxation:

- have structures that do not inappropriately distort the incentives for people to work and save and otherwise meet their individual responsibilities for their own welfare; and
- maintain community support. The maintenance of this support is not just a product of the democratic nature of government, but is critical in a society such as Australia where community attitudes reflect a subtle balance of a generosity of support for those who need it, with an equally strong disapproval of people who do not make efforts to help themselves. This is particularly true given the relatively unusual Australian reliance upon the funding of income support from general tax revenue rather than individual social insurance. Ensuring that people seek to become more self-reliant, and having program structures that support this, are therefore crucial to maintaining taxpayer support to enable governments to assist those in need.

As expenditure on social security and welfare accounts for 36.4 per cent of Commonwealth expenditures (Costello 2003), there is strong taxpayer interest in ensuring that this balance is reflected in appropriately managed and well-targeted, effective and efficient policies.

These priorities, as well as more technical questions on how they can be implemented in the structure of income support for working-age households, form the basis of the Government's consultation paper *Building a simpler system to help jobless families and individuals* which was released in December 2002 (Commonwealth of Australia 2002a). This paper reflects the next steps of the process of reform identified in the final report of the Reference Group on Welfare Reform (the McClure Report). This suggested that the social support system needed major reform to improve the circumstances of individuals, families and

communities. It recommended a simpler income support system that is more responsive to individual needs, circumstances and aspirations and that improves incentives to work for those of working-age (McClure 2000). The current consultation paper identifies, amongst other issues, a need to address the structure of income support payments for the people of working-age.

The Department acknowledges these concerns and recognises that existing arrangements, which have focused successfully on providing an adequate safety net, have not been as successful in providing these incentives and opportunities.

In the introduction to the consultation paper, Ministers Vanstone and Abbott identify key objectives for the consultation and cite some important constraints on policy. These include:

- a need to go beyond simply paying income support, but rather to recognise that the resources of governments must seek to build self-reliance and social inclusion;
- recognition that it is not feasible to attempt to respond to the current problems of payment structures simply by increasing payment rates and providing access to more generous income testing arrangements; and
- accepting that reforms will require compromise in order to balance a range of competing interests and to gain community support and consensus in order to be implemented.

In addition to providing basic income support to households without their own sources of income, the Australian social welfare system provides substantial support to many other households as a supplement to the income they gain from earnings and other sources. This role is particularly marked in the support provided to families with children. This reflects government recognition of a broader community responsibility to support parents in the responsibilities they have accepted. Such payments include Family Tax Benefit (FTB), which substantially flows to households whose main source of income is employment. Overwhelmingly, Commonwealth-funded child care is used for work-related purposes.

Reforms associated with the introduction of the New Tax System acted to significantly increase the value of income support payments, especially for families. In particular they increased the value of 'in work' assistance. This comprised increased rates of payment; a lowering of some taper rates, including a lowering of the taper rate for family payments from 50 cents in the dollar to 30 cents; and a reduction in marginal tax rates.

The effect of these policies, as well as the generous structure of the income tests for pensioners, mean that many households maintain eligibility for some income support, and often substantial other benefits, notwithstanding considerable private income, especially from employment. For example, a sole parent with one child can continue to receive income support with earnings of almost \$32,000 per annum.⁵ Similarly, a couple with three children under 18 can have earnings of over \$96,000 before losing eligibility for FTB Part A. An age pensioner couple can have an income of \$50,000 between them, while still retaining some pension and a concession card.

One of the important questions identified in the consultation paper on the reform of assistance to those of working-age is the extent to which earnings and income support can be combined. The structure of many payments, developed half a century or longer ago, still reflect societal structures of a single breadwinner in full-time employment, and are poorly equipped to respond to the variety of employment arrangements in place today.

The combining of work and income support is also relevant from the perspective of analysing apparent social trends. Specifically, caution needs to be exercised in interpreting changes in the proportion of households receiving income support as a measure of social outcomes – and a proxy for welfare need. Rather, increasing numbers of recipients are, in part, a consequence of increasingly generous payment structures.⁶

These features also make it important that social policy takes into account the dynamic and lifecycle experiences of Australians and their families. The needs of individuals and their families and their capacity

to meet these vary over their lifetimes. While in many cases people manage to respond to these fluctuations themselves, in other cases it is appropriate for governments to intervene to help people to respond. Students, for example, may forgo the immediate opportunities for earnings from full-time employment in favour of achieving much higher lifetime earnings through their investment in education. Similarly, the investment people make through home ownership and superannuation savings is drawn upon to maintain living standards in retirement.

Often these arrangements involve both individual and government responses. Students with access to limited personal or family resources may be entitled to some income support from government while they are studying, but equally will need to pay for part of the cost of their education through HECS. Similarly superannuation involves individual and employer contributions, supported by favourable government taxation treatment. At the point of retirement, the returns from this investment often play a complementary role to the provision of government support through the age pension. Another example of this type of mix is support for children in separated families. Specifically, lone parents and their children may gain income from employment, government assistance through payments including of Parenting Payment Single and Family Tax Benefit, as well as the child support obligations of non-resident parents.

Even for those groups that may require more substantial income support, the period for which this assistance is required may be relatively brief from a lifetime perspective. The circumstances they experience while in need of the assistance may be transitory, and not reflected in their overall lifetime welfare outcomes. As an example, many unemployed people may, after a period of assistance, re-enter the workforce and become economically self-reliant. Again, for many young people, a period of unemployment reflects little more than a short establishment period in the workforce, and this experience is followed by little, if any, further recourse to welfare.

Australia has had increasing living standards

Australia is a nation with high and growing living standards. Successive generations have experienced increasing levels of material living standards, increasing opportunities for higher levels of education and increasingly diverse lifestyle choices.

For example, a couple with two children and a single income earner on average weekly earnings in 2002 has double the real income of a similar family in 1952⁷. This rising affluence can be seen in many aspects of today's living standards:

- Dwelling size: In 1971, 36 per cent of dwellings had two or fewer bedrooms and 13 per cent had four or more. By 2001 the proportions were 27 per cent and 25 per cent - in spite of falling average family sizes. The average floor space of a newly built private house has increased by almost 80 per cent from 130 square metres in 1971 to 231 square metres in 2000 (ABS 1998, ABS 2001, ABS 2002).
- Motor vehicles: The number of households without a car has more than halved from almost a quarter in 1966 to just over 10 per cent in 2001 (ABS 1986, ABS 2001).
- Appliances: While home computers were rare even a decade ago, by 2001 44 per cent of the population reported using a computer from home and 29 per cent accessed the Internet from home. Mobile phone access has increased from 45 per cent in 1998 to 61 per cent in 2000. Over 99 per cent of Australian households have televisions – with 62 per cent having two or more – and 86 per cent have a videocassette recorder (ABS 2001, ABS 2000; AC Nielsen 2001).

Strong gains have also been recorded in the shorter term. This has been particularly marked in the second half of the 1990s. By February 2003 there were over a million more people in employment than there were in March 1996. Over the same period, the number of unemployed people has fallen from 740,100 to 609,700, with the rate of unemployment currently 6.0 per cent compared with 8.2 per cent in March 1996. The jobless rate for youth has fallen from 16.9 per cent in February 1996 to 13.1 per cent in February 2003.⁸

The impact of these falls has been widespread. ABS produces labour force estimates for some 59 labour market regions across Australia. In 1996-97⁹, 15 of these regions had unemployment rates of over 10 per cent. This had fallen to just two by 2001-02. Even long-term unemployment, a stubborn aftermath of the recession of the early 1990s, has fallen from 201,400 to 137,600. Similarly employment growth has been strong and diverse. In contrast to early periods, it has been recorded widely across both full- and part-time employment, and across industry sectors.

This surge in employment has also been accompanied by increasing real earnings for employed people and increases in the real value of income support payments. Taken together, these factors have translated into higher household incomes.

Since 1996 average weekly earnings¹⁰ have increased in real terms by 10.6 per cent. Even more importantly for many lower income households, after falling by 5 per cent in real terms between 1992 and 1996, the real value of the minimum wage increased by 8 per cent by 2002.

While, as discussed in more detail in Chapter 5, considerable caution needs to be exercised in interpreting trends in the distribution of household incomes, especially for lower income households, current evidence suggests that there have been marked gains in income for households across the spectrum of the income distribution. Data from the latest currently available ABS Survey of Income and Housing Costs show that in 1999-2000 the average income of the poorest 20 per cent of income units was 8 per cent higher, in real terms, than it was in 1996-97. In addition, ABS reported that there was no significant increase in income inequality between 1994-95 and 1999-2000.

Care also needs to be exercised in interpreting these trends as household experiences. These types of snapshots do not inform us about the experiences of individual households whose position in the income distribution can change over time. That is, 'poor' households today may well not be the same households identified as poor in previous surveys. Recent research suggests that 70 per cent of working-age households classified as having low incomes in 1996-97 did not record them in 1999-2000 (Breusch and Mitchell 2003).

As with much other analysis drawn upon in this submission, these data suggest that many popular perceptions of social trends in Australia, and indeed much academic and other analysis, reflect trends that might have been recorded in the 1980s and early 1990s, but have since weakened or have even been reversed. Further examples include:

- Differences in regional labour market experiences have become much more muted. As cited above, there have been widespread falls in regional unemployment. Indeed the strongest falls have been recorded in those areas that had the highest rates in the early 1990s.
- Jobs growth has been recorded across regions, industries, earnings levels and by employment arrangements.
- Household incomes have also grown across all types of locations – in both the short and longer term.
- While the rate of aggregate family joblessness has not changed substantially, this reflects shifts in the composition of families. The rates of joblessness amongst sole parent families and couple families with children have actually both fallen from historic peaks, with the apparent overall increase in the rate being a result of a higher proportion of families being headed by a sole parent.

Taken together, although Australia's economy and society have both been subject to considerable internal and external changes and pressures over recent decades, these trends suggest that simplistic claims of increasing inequality, with the rich growing richer and the poor poorer, and of the fracturing of Australian society between advantage and disadvantage, are misleading.

Australia's welfare system is facing challenges from changing structures within the community and labour market as well as demographic ageing

Despite these very positive directions for Australia as a whole, for some groups outcomes remain poor, and social policy needs to confront some important challenges as our society continues to change.

Joblessness, with its associated loss of opportunity for greater self-reliance, remains too high, including levels for families with children. This is particularly so for sole parent families – who are the main group of jobless families - many of whom have particularly adverse outcomes. Analysis increasingly suggests that the problems faced by many are complex and not amenable to simple solutions. They can include unstable relationships, poor levels of education and skills, as well as, for many, coping with mental and physical health problems and disability. Further, traditional responses, such as public housing, appear to be of limited benefit, or are even associated with more negative outcomes. Outcomes for Indigenous Australians particularly are well below those of other members of the community. These issues are considered further in chapter 2.

As highlighted in the *Intergenerational Report 2002-03* (IGR) (Commonwealth of Australia, 2002b) the ageing of Australia's population structure will bring significant pressure to bear on government budgets and the community as a whole. Although the strongest pressures are those that arise from health and pharmaceutical expenditures, the IGR modelling indicates that expenditure on income support will rise from 6.8 per cent of GDP in 2001-2002 to 7.4 per cent in 2041-42. While this increase appears to be very modest, depending upon the rate of economic growth, it may involve increases in real expenditure of up to 165 per cent.

Importantly, also, these estimates reflect a base case of maintaining existing policy settings. While this is a sensible basis for the IGR analysis, with its focus on identifying the consequences of existing policies in an environment of structural ageing, it has some limitations. If, for example, currently CPI adjusted income support payments – such as allowances and many family payments -- were to be made more generous to reflect some of the increase in community living standards which is forecast over the period of the projections, expenditures would increase much more rapidly. Such patterns have been seen in the past. Expenditure on social welfare¹¹ has increased from an average of 3.1 per cent of GDP in 1970 to 4.5 per cent a decade later in 1980, to 5.9 per cent in the decade to 1990, and 7.0 per cent in the decade ending in 2000. In 2001-02, spending on social welfare as a proportion of GDP was 7.4 per cent (Department of Family and Community Services, 2001a, 2001b, 2002a).

Even if only the base case IGR estimates occur, given the magnitude of the other budgetary pressures from ageing, the capacity of governments to increase levels of support will be highly constrained.

The second major challenge relates to the questions identified in the working-age payment consultation paper *Building a simpler system to help jobless families and individuals*. This is how to restructure payments to working-aged families and individuals so as to both meet needs and provide effective support and incentives for economic participation. One of these tasks is to respond to the structure of the welfare system which has developed over a long time, often in the context of quite different economic structures, and at times in an ad hoc fashion.

Summary

Any effective attempt to contribute to the development of social policies that will address the challenges of poverty needs to encompass the underlying questions and constraints identified, and have a clear and quantifiable approach to these concerns.

In particular, FaCS considers that pursuit of the traditional 'poverty debate' entails a limited focus on the uncritical analysis of data on reported household incomes and attention to income distribution-based measures of 'poverty' at a point in time. Such debates tend to identify 'bandaid' responses based simply on redistributing existing incomes by tax and transfer payments. FaCS considers that such solutions will fail to respond to the needs of those currently facing hardship and disadvantage and expose the welfare system to

even greater pressures as a result of an ageing population. Further, reliance on income-based measures prevent us from grasping opportunities for the development of policies which will lead to greater levels of well-being for all members of the community, especially policies which seek to enhance the opportunities for participation by all.

2. Lifetime participation and social welfare

The objective of social protection policy must be to ensure to each member of society the possibility of an active role and participation in that society. For most people, most of the time, this would be achieved through their own work and social activities. The role of public policy in the 1990s must be to design interventions so as to maximise both the number of people who have opportunities for active social roles, and the durations of their lives over which they can experience such activity.

(OECD 1988, p18)

This objective, from a 1988 OECD publication, *The Future of Social Protection*, remains as valid for social policy into the 21st century as it was for the 1990s.

As indicated in Chapter 1, aggregate economic performance and individual welfare are both primarily driven by the extent and nature of individual economic participation. Hence the factors that support and enable this are as critical a component of the social welfare system as income support payments and other actions to support households and individuals.

This chapter seeks to examine the relationship between lifecycle, social welfare and participation in more detail. As the issues are complex, it considers the linkages in a number of ways:

- Through lifecycle phases, especially the issues relating to children and youth.
- Through questions on the participation of working-age people, especially achieving work-family balance and effective participation, as well as looking at those who may face specific labour market and other disadvantage.
- Examining the relationship between lifetime participation and outcomes for Australians when they age.

These discussions consider both the issues and outcomes for these groups, as well as some of the policy responses. Before this is done, the section begins by looking at why such a strong focus on participation has been adopted.

However, the income support system is not achieving all of its goals and is under pressure

While the current income support system can broadly be considered effective in providing income support to individuals and families, and hence in redistributing income and assisting in alleviating hardship, it is, in many cases, less successful at promoting participation. It is also not well placed to cope with the demographic, economic and social changes the nation faces.

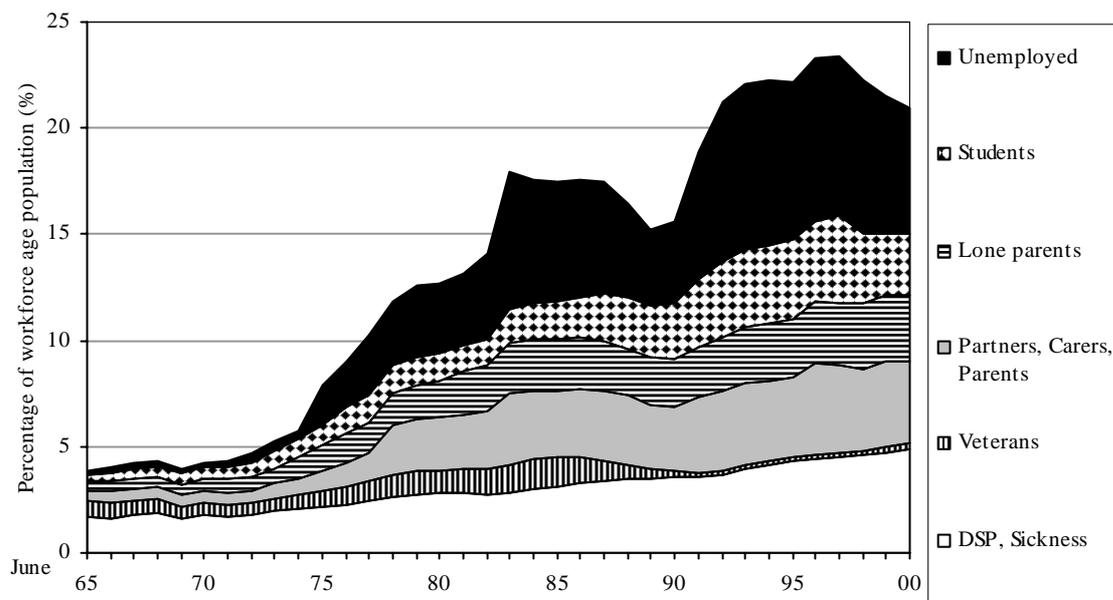
The pressures on the system come from a number of directions.

- The numbers of people of workforce age receiving income support are, as shown in Figure 1, growing.
- Many of these people are relying on income support for longer periods, and the majority are on 'passive' payments – that is, payments that do not require them to undertake activities, such as job search, to improve their employment prospects.
- This is taking place against a background of an ageing population and declining fertility rate that will see the pool of people of workforce age shrink and demands on the income support system grow.

These are pressures that have been recognised in the work of the Reference Group on Welfare Reform, the analysis of the Intergenerational Report, and in the *Building a simpler system to help jobless families and individuals* consultation paper.

The program of welfare reform emerging from these processes represents a long-term agenda of change, and much work is still needed to determine how this should be achieved and where particular balances will be set. Nevertheless some important first steps are being taken, including the Australians Working Together initiatives.

Figure 1: GROWTH IN WORKING-AGE INCOME SUPPORT RECIPIENTS 1965-2000



Source: FaCS (2000) Page 21

The *Building a simpler system to help jobless families and individuals* consultation paper analysed characteristics of current income support recipients of working-age and reported:

- Over 20 per cent of all Australians of workforce age receive income support (up from less than 5 per cent in 1970).
- Most rely on income support for the majority of their income.
- Lone parents and people aged over 50 are the groups most likely to be on payment.
- Recent research estimates that lone parents, on average, spend more than 12 years on payment while they have dependent children, and likely much longer throughout their working-age.
- Most people aged 50 who come onto payments, simply move onto Age Pension rather than exiting the system.
- Over 60 per cent of workforce age people receiving income support are on 'passive' payments; they are not required to seek work or take steps to increase their self-reliance.

It further noted that these high levels of welfare dependence have significant economic and social costs for individuals, families and their communities. The nature of these broader costs was recognised in recent analysis of ABS financial stress indicators, which suggests that

“the impact of employment on outcomes [for households of working-age] goes beyond the simple issue of income.” (Bray 2001)

The key priority is to maximise participation ...

The priority for the development of welfare policy is thus to maximise opportunities for individual economic participation, where people are capable of undertaking this.

Recognising that individuals do not exist in isolation, current welfare policy is also concerned with building family and community strength and capacity. Individuals are likely to be better equipped to take best advantage of employment opportunities where they are supported by strong and stable families and communities. Strong, growing communities are also more likely to generate employment opportunities.

... not just at a point in time, but over the lifecycle.

The welfare system provides income support in recognition that people may need financial assistance at some points over their lifetime. However, for people of workforce age with the capacity for economic participation, the goal is to provide assistance, during what are for most transitory periods of need, but in a way that focuses on maximising future participation. Individuals will almost always be better off financially by working and for most people work also provides many non-financial benefits (such as social contacts, a sense of purpose, etc). Individual well-being is therefore maximised by maximising economic participation over the lifecycle.

This focus on maximising lifecycle participation is particularly important in the context of an ageing population. With growing numbers of people of retirement age, increasing life expectancy and higher expectations of standards of living and activity during retirement, individual retirement savings are playing an ever-increasing role. This has been reflected in the development of superannuation policy and the introduction of compulsory superannuation.

However, the benefits of this policy only flow to people as a result of their savings, and employer contributions, while they are employed. As a consequence, for those with periods of joblessness, not only is there a short-term loss of income and welfare, but also a longer term impact on their future well-being when they are older.

The grounds for concern about low lifetime participation have been reinforced by recent research. This has utilised longitudinal data on income support recipients to study their pattern of receipt of assistance over time. This analysis shows that, while individual spells of income support receipt may often be relatively short, a pattern emerges of recurrent periods of assistance and movement between different payments (Gregory and Klug 2002).

These results have raised some fundamental questions about the nature and consequences of existing welfare assistance, especially where policy settings have relied upon cross-sectional and episodic analysis.

A complementary need for considering lifecycle rather than just points in time analysis has already been identified with respect to income dynamics. One dimension of this, discussed in Chapter 5, is the extent to which transitory income states may be identified as being income poverty and this may well cloud the picture of longer term outcomes and needs.

Lifecycle phases

Children are affected by the economic participation of their parents

Just as an individual's well-being is affected by their level of economic participation, the well-being of children is affected by the economic participation of their parents. Overseas research suggests that, while childhood socio-economic status does not predetermine adult socio-economic status, growing up in a low income or jobless household does increase the probability of being on a low income or jobless in adulthood (Centre for Community Child Health 2000; Pech and McCoull 2000).

“Evidence from the USA suggests that the children of income support recipients are more likely than other young people to drop out of school early, make a poor transition to the workforce and/or become parents at an early age. These events, in turn, increase the likelihood of them receiving income support.” (Pech and McCoull 1998, p177)

Estimating the impact of changes in income and employment activity on these results is difficult. Some US studies find that, while increased income leads to better material living standards, it has little influence on behaviour, educational attainment or labour market success of children. Others identify some positive outcomes, but these are slight, with a 170 per cent increase in income resulting in an additional half to one year of education. Analyses of US welfare-to-work statistics also show a mixed result: studies show a mix of positive and negative outcomes for children where work is undertaken with no net increase in household incomes (an outcome particular to the US given the low minimum wage). Where both employment and income gains occurred, projects showed positive results (Bradbury 2003 forthcoming, p29).

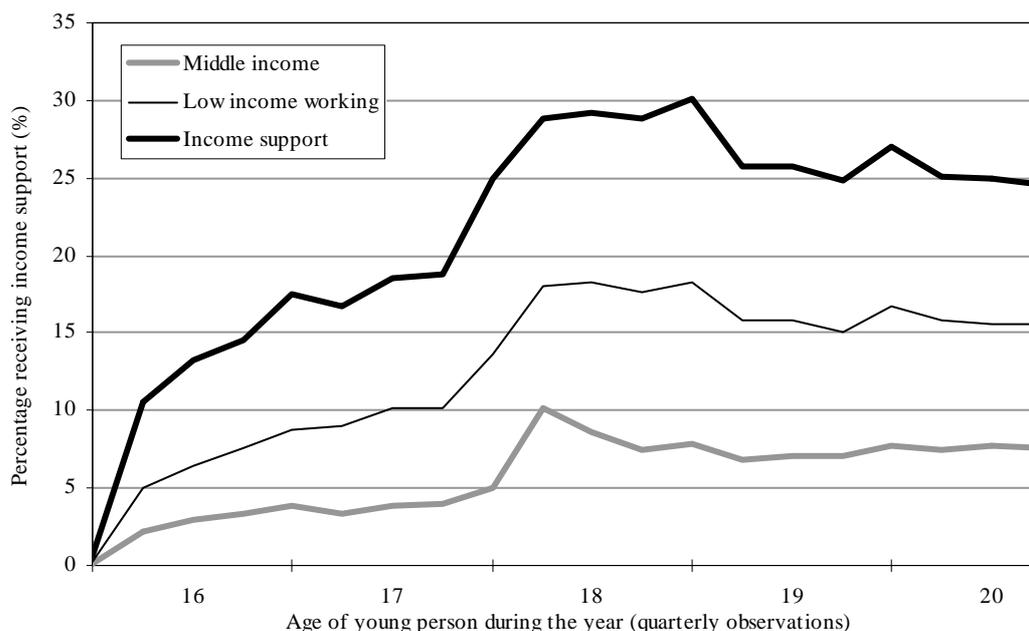
While some caution needs to be exercised in extrapolating the results to the Australian situation, given the marked differences in Australia’s income support system, and our education, health and social infrastructure, some recent studies suggest some of these results may be reflected here, at least for young people.

Research by Pech and McCoull (2000) tracked a group of young people over time to explore the extent of intergenerational income support dependence. The young people, whose parents had at some time received family payments, were aged 16 at the beginning of the tracking period.¹²

Figure 2 shows the incidence of young people’s receipt of income support by their family of origin. Families of origin are grouped according to levels of income: middle income families, who were either no longer receiving Family Allowance or were only entitled to the minimum rate; low income working families, who received Family Allowance at above the minimum rate and had at least one parent in paid employment; and income support families, where both parents or the lone parent received an income support pension or benefit.

As can be seen from the chart, between the ages of 16 and 20 years, young people from income support families were around three times as likely to be receiving income support as young people from middle-income families.

Figure 2: INCOME SUPPORT UTILISATION BY CHILDHOOD FAMILY BACKGROUND



Source: FaCS Transgenerational Dataset (updated from Pech and McCoull 2000)

Pech and McCoull (2000, p43), reporting on the initial tranche of these data, found that

“...most young people from disadvantaged backgrounds, as measured by their parents’ receipt of income support, do not spend long periods on income support between their sixteenth and nineteenth birthdays.” However, young people from income support families were “...much more likely than average to:

- leave school early;
- experience unemployment and long-term unemployment;
- have children by the age of 19;
- receive income support themselves; and/or
- be classified as ‘homeless’ for income support purposes.” (Pech and McCoull 2000, p63)

Investing in early childhood can promote opportunities

Such outcomes are, however, not deterministic, and indeed as shown in this type of research, while there is some degree of intergenerational transmission of poor outcomes, there is also a high degree of intergenerational mobility.

Between 1985 and 1995, Year 12 retention rates increased from 46 to 72 per cent, with the largest falls in non-completion being recorded by young people of low socio-economic backgrounds and students of government schools (Lamb, Dwyer & Wyn 2000). Between 1992 and 1999 there was a 20.8 per cent increase in the number of students from lower socio-economic backgrounds at university (James 2002). While the share of university places belonging to students from lower socio-economic backgrounds remained fairly constant over this period, between 14.4 and 14.7 per cent, this is likely to reflect the opportunities generated by the overall increased number of university places.

Early childhood research suggests that the balance between ‘risk’ factors, such as socio-economic disadvantage, and ‘protective’ factors, such as positive parenting, can have a significant impact on a child’s outcomes later in life (The Centre for Community Child Health, 2000; AIFS, 2002). Research has also demonstrated that early childhood interventions can make a difference to outcomes in primary school and into adolescence. Not only do the effects continue, albeit at reduced levels, but the available research has also shown that the smaller continuing effects from early childhood interventions are still larger than the immediate effects of other interventions carried out later. Nevertheless, it is important to be realistic about the difference that short-term early intervention without any follow up can be expected to have (Brooks-Gunn 2003).

Recognising the importance of early childhood, and the need to address children’s issues coherently across many different parts of the Commonwealth, the government has established a Task Force on Child Development, Health and Well-being, which FaCS convenes. Much of the responsibility for children’s services lies with state and territory governments, and with the many professionals and community organisations outside government. Accordingly, the Task Force is overseeing the development of a National Agenda for Early Childhood which will highlight national direction for action in three key areas: child and maternal health; early learning and care; and child-friendly communities.

The Task Force has prepared a consultation paper, *Towards the development of a National Agenda for Early Childhood* (Commonwealth of Australia 2003), proposing a framework for a National Agenda and possible goals under each of the three action areas. Structured consultation meetings are being scheduled with key early childhood organisations and state and local governments over the next few months. Written submissions are also welcome from anyone with an interest. A report of the findings will be issued later this year, together with suggestions about next steps.

In the medium to longer term, understanding children’s development will be enhanced through access to the results of the Longitudinal Study of Australian Children, which FaCS is funding. This will enable

policies to be developed which reflect the actual experiences of Australian children and families, and will permit programs and other activities to be evaluated.

The Commonwealth is also investing in services for families with specific needs

Clearly, promoting economic participation by parents is at the core of a response directed at improving opportunities for children. The strategies and programs that perform this role are considered further in this submission, as are some of the services the Commonwealth provides to families and children with specific needs and facing disadvantage, including the Commonwealth Financial Counselling Program, the Child Abuse Prevention Program and the Family Relationships Services Program.

Young people often also need support in their transitions

Young people face a number of critical lifecycle transitions: from adolescence to adulthood; from dependence to independence; and from study to work. For many, this represents a highly vulnerable phase and difficulties in preparing for, and making, the transition can have lifelong consequences. Program and policy priorities include:

- supporting families to meet their responsibilities, including building their resilience;
- supporting students in their investment in education and training;
- supporting an economic environment which provides young people with opportunities to get established in the workforce; and
- ensuring that income support programs act to facilitate participation.

Youth incomes highlight the interdependent nature of financial support, encompassing parental responsibilities for their dependent youth, recognition by young people themselves of their responsibility to contribute to their own upkeep, and the Government's recognition that, where necessary, financial support needs to be provided to young people. Youth Allowance, which was introduced in July 1998, was never intended to be the sole measure of income support for young people, as no single source is expected to shoulder the whole responsibility for supporting young people.

Rather, income support schemes for students have been designed to encourage young people themselves and their families to help young people stay in education and training. Assistance is targeted towards young people in the post-compulsory school years from low-income backgrounds. Youth Allowance has flexible activity testing and incentives for young people to take up full-time education and training, such as a higher fortnightly income free area, access to the Student Income Bank and access to further assistance through a loan under the Student Financial Supplement Loan Scheme. With the introduction of Youth Allowance Rent Assistance was also extended for the first time to students who needed to live away from home in order to undertake study, which particularly benefited students from rural and regional areas.

The different patterns of transition from family to individual responsibility for financial support also make judging outcomes difficult. Some young people, even while living at home, may need to rely largely upon their own incomes and parents may expect that they pay the full cost of their living expenses. For others, even when living away from home, parental income support is provided – in cash or kind. In addition, for those youth undertaking training and study, this period of lower income reflects an investment in the longer term higher incomes that their qualifications can generate.

Consequently, not only are short-term measures of income a poor guide to living standards, but they also can provide a very misleading perspective on the real circumstances of the individual and their outcomes over their lifecycle.

The *Final Report of the Youth Allowance Evaluation* highlighted that young people and parents acknowledge that the support of young people is a shared responsibility, particularly in regard to students. Around 60 per cent of parents surveyed for the evaluation either supported or strongly supported the principle of

parental means testing.

Education is critical to longer term outcomes

As identified earlier, young people are increasingly choosing to complete Year 12 and participate in post-school education. This can be seen in the doubling of the proportion of young people aged 15-24 participating in full-time tertiary education between June 1987 and June 2001.

In June 2001, three quarters of students completed Year 12 or equivalent, and, on leaving school, 69 per cent of Year 12 completers and 42 per cent of non-completers went on to further education and training.

These changes are important, for as can be seen from Table 1, people with higher levels of education are more likely to be employed, and when employed to be in full-time employment, as well as having higher average levels of earnings. That is, rates of employment and returns from work tend to increase with level of education. These data also illustrate the point made above of the investment nature of much of the transition period and the role of study in enhancing potential future earnings, and overall lifetime income.

Table 1: LABOUR FORCE STATUS AND AVERAGE FULL-TIME WEEKLY EARNINGS BY HIGHEST EDUCATIONAL ATTAINMENT FOR PERSONS AGED 25-45, 1997-98

| Level of highest educational attainment | Labour Force Status (Per cent) | | | | | Earnings (\$ per week) Full-time |
|---|--------------------------------|--------------------|------------|---------------------|-------|----------------------------------|
| | Employed full-time | Employed part-time | Unemployed | Not in labour force | Total | |
| Degree or higher | 69.6 | 18.3 | 2.6 | 9.6 | 100.0 | 946.85 |
| Non-degree post-school qualification | 65.8 | 16.9 | 4.3 | 13.1 | 100.0 | 731.94 |
| Year 12 | 58.6 | 17.7 | 4.2 | 19.5 | 100.0 | 690.92 |
| Less than Year 12 | 44.1 | 20.2 | 7.6 | 28.1 | 100.0 | 602.38 |
| Still studying | 7.5 | 34.7 | 12.5 | 45.3 | 100.0 | 635.20 |
| Total | 57.1 | 18.7 | 5.2 | 18.9 | 100.0 | |

Source: Derived from ABS Survey of Income and Housing Costs, Cat. No. 6544.0.30.001

...many other factors also contribute to youth labour market experiences

Youth and young people have benefited from improving economic outcomes. The teenage¹³ full-time unemployment rate (seasonally adjusted) has fallen from 34.5 per cent in July 1992 to 21.0 per cent in July 2002 (ABS 6202.0). However, as most young people are not in the full-time labour market,¹⁴ this type of measure can be misleading and the experience of youth is better gauged by the teenage full-time unemployment to population ratio. This has more than halved from 10.1 per cent in July 1992 to 4.3 per cent in July 2002 (ABS 6202.0). More details of labour market trends for youth are given in Chapter 4.

Youth labour force participation also benefits from direct Commonwealth intervention, especially programs that support young people in their job search and placement. These include: the Job Network, the Job Placement, Employment and Training (JPET) program; work experience and development programs including Work for the Dole and Green Corps; assistance that empowers young people to make appropriate career choices, including funding to the Enterprise and Career Education Foundation (ECEP); the Career and Transition (CAT) Pilots; and support for specific groups, such as the Jobs, Education and Training (JET) program, which includes assistance with child care. New Apprenticeships also provide a pathway into the full-time workforce for many young people, enabling them to combine work with formal training.

New Apprenticeships are complemented by youth wage policies that allow employers to offer wages consistent with young people's lower skills and experience. Youth wages help to ensure the existence of entry-level jobs for young people. Over time, with increasing workplace experience, most young people will move on to more complex jobs with commensurate increases in remuneration. These wages, and the apparent welfare outcomes for youth, need to be judged on a longer term basis.

Working-age Participation

Supporting participation of those of working-age builds upon the interventions and policies directed at youth and is at the heart of a strategy of encouraging lifetime participation. This objective is reflected in the welfare reform goals of:

- a reduction in the incidence of jobless families and households;
- a reduction in the proportion of working-age people that need to rely heavily on income support; and
- stronger communities that generate opportunities for economic and social participation.

International and Australian research suggests that the most successful approaches to welfare reform adopt a balance of assistance to help people improve their prospects of employment, with incentives that ensure rewards from working and participation requirements tailored to individual circumstances and capacity. This is the basis for welfare reform and the Australians Working Together package being implemented by FaCS.

Of particular importance is ensuring participation by families. Not only is this important for individuals and couples for their own lifetime outcomes, but as seen previously, along with parental care, it is critical for the outcomes for children.

Families – supporting participation and caring – achieving a work and family balance

Most Australian couple families with children have both parents employed. In June 2000, the male partner was employed in 89 per cent of couple families with dependent children, and almost always worked full-time (95 per cent). The female partner was employed in 61 per cent of such families, with 43 per cent of these women being employed full-time. The proportion of mothers in full-time employment increases with the age of the youngest child.

The extent to which both partners participate in the labour market reflects a significant change in our society and is the result of many factors including:

- higher levels of education and training;
- smaller family sizes and later childbirth;
- changing domestic technology and the capacity of households to ‘outsource’ components of domestic labour;
- the important role of women in the labour market and the demand by employers for their skills and experience, as well as the desire of women to be independent, to build careers and contribute to the economy;
 - supported by increased access and availability of child care;
- the contribution of higher levels of aggregate household employment in helping families to increase their incomes, and thus their well-being; and
- as insurance. Ensuring that the family continues to receive some income if one partner loses their job or if the relationship breaks down.

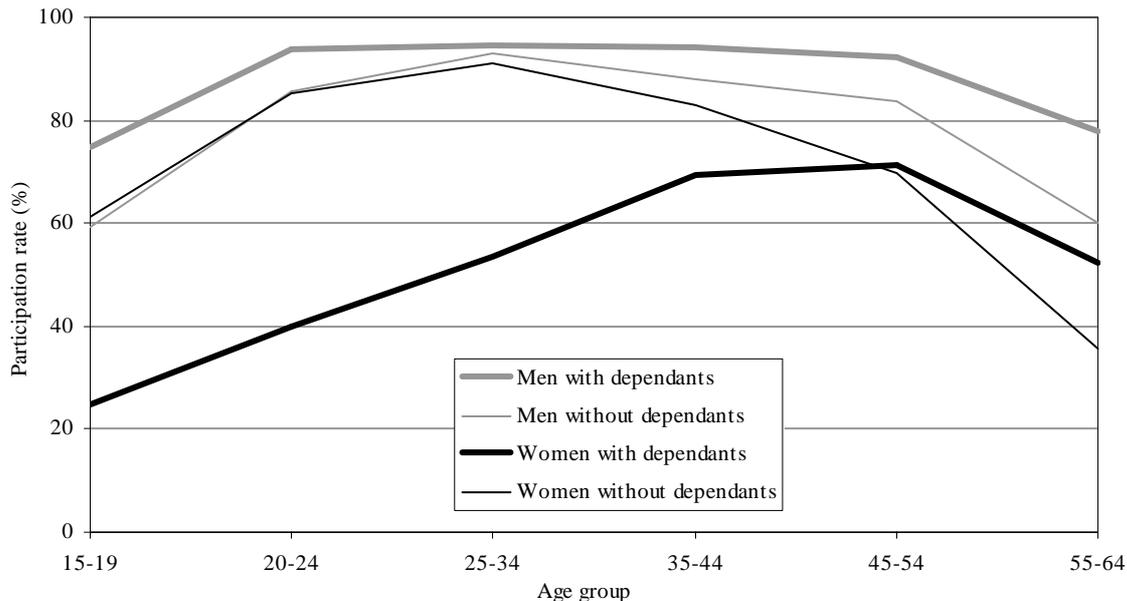
The last three of these, which encompass many of the aspirations and goals for families and the people who form them, also represent important objectives for policy to support. Together these objectives, along with supporting families to provide the care children need, constitute the basis for achieving a work and family balance.

Women still tend to have primary carer role

Achieving this balance is particularly important for women, who still primarily take the main caring role, although it is equally relevant to supporting men in sharing this task.

As Figure 3 shows, the presence of children has a significant impact on women's labour force participation. Men and women without dependants have similar levels until the mid-thirties when women's participation starts to decrease more rapidly than men's participation. Men with dependants have a similar, although slightly higher, level of participation to men without dependants.

Figure 3: MALE AND FEMALE PARTICIPATION RATES BY PRESENCE OF CHILDREN, JUNE 2000



Source: ABS, Labour Force Status and other characteristics of families, Cat No. 6224.0, June 2000, Table 26

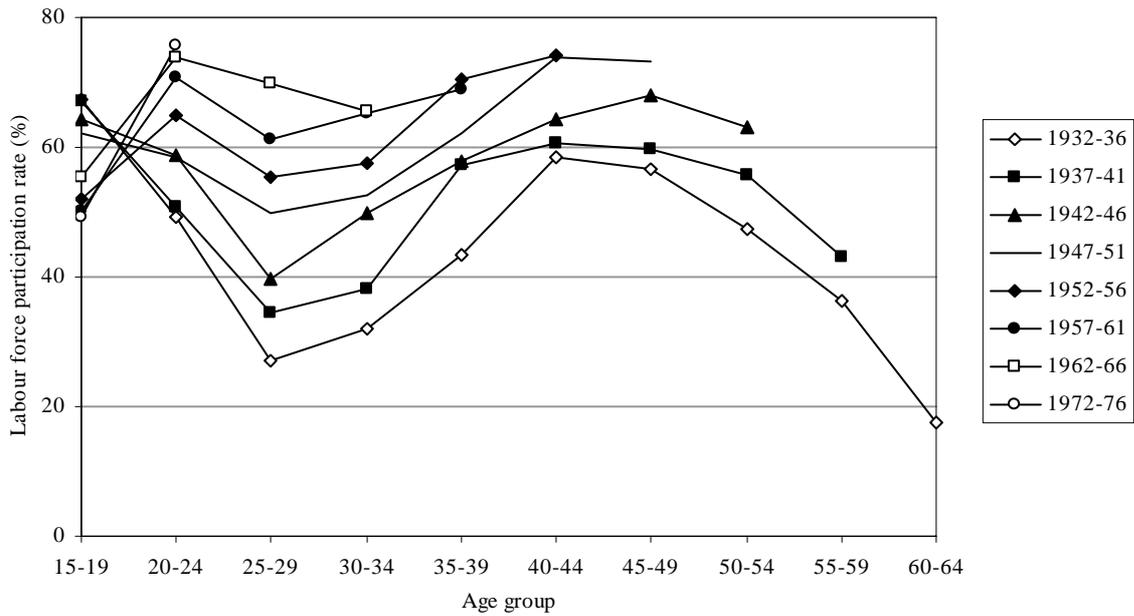
Time out of the workforce to have and raise children is a significant cost for women, not just during the relevant period, but also over a woman's lifetime. Periods out of the workforce may reduce skill levels relative to other workers and slow career progression. They also impact on the ability to save for retirement. In addition, periods of non-employment that lead to a loss of workforce contact and skills can create difficulties if relationships break up.

...nonetheless female workforce participation is high and has been growing

As Figure 4 shows the pattern of female labour force participation has changed dramatically reflecting the changing role of women in society.

Each line in the figure plots the lifecycle participation rates for different birth cohorts. Women in the 1932-36 cohort had high levels of participation in their youth but significantly lower levels of participation during their 20s. This was followed by a second peak in participation during their early 40s, followed by a steady decline in participation approaching retirement age. Successive birth cohorts show an overall increase in participation rates, as well as changing patterns over the lifecycle. The main features of this are: lower youth participation, reflecting an increase in education retention rates; a gradual delay in the trough to the early 30s, reflecting the trend towards postponing childbirth; this is followed by a flatter distribution of participation, as women take less time out of the workforce during their child bearing years; and finally an increase in participation as 'mature' workers.

Figure 4: WOMEN'S LIFECYCLE LABOUR FORCE PARTICIPATION BY BIRTH COHORT

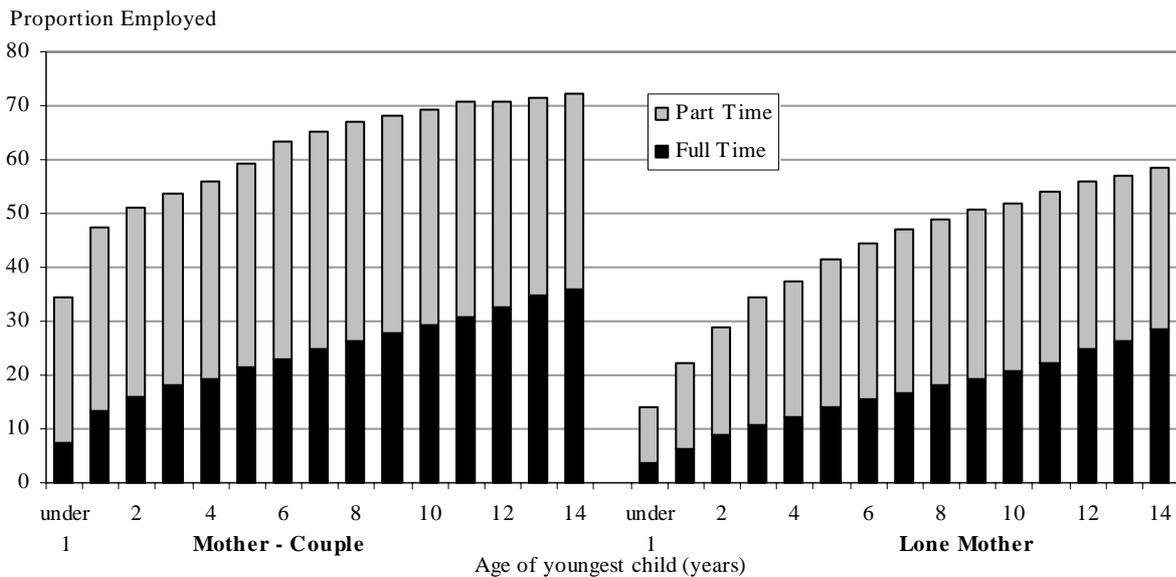


Source: ABS Census, various years.

Participation rates differ by presence of dependents and by 'marital' status

As seen earlier in Figure 3, there are significant differences in participation rates between women with and without dependants. Figure 5 shows that in 2001 there were also significant differences for those with dependants by marital status and the age of their youngest child. Mothers, both lone and partnered, were more likely to be working part-time when their children were young, with the split between part-time and full-time employment evening out as the youngest child ages. However, consistently, partnered mothers are more likely than lone mothers to be engaged in employment.

Figure 5: WOMEN WITH DEPENDENT CHILDREN AGED LESS THAN 15 YEARS, FULL- AND PART-TIME EMPLOYMENT RATES BY FAMILY TYPE AND AGE OF YOUNGEST CHILD, JUNE 2001



Source: ABS, Unpublished 2001 Census data

This pattern remains in more recent data. In January 2003, labour force data shows that 59.5 per cent of partnered mothers and 44.1 per cent of lone mothers with children aged less than 15 were employed (ABS

6203.0). Although the gap between these groups of mothers tends to diminish with the age of children, it remains, even for mothers of older children. For example, among mothers with a youngest child aged 15-24 years, 68.2 per cent of single mothers and 73.6 per cent of partnered mothers are employed. While there might appear to be greater financial incentive for lone mothers to gain employment, as they are less likely than partnered mothers to have access to a second household income, they are also less likely to be able to share parenting responsibilities.

Jobless families – largely an issue of lone mothers

This pattern of employment is also critical to understanding the nature of jobless families, which represent one of the most significant breakdowns of work and family balance. Some two thirds of all jobless families are sole parent families, and 91.5 per cent of jobless sole parent families are headed by women (ABS 6203.0 June 2002). As discussed in Chapter 4 while the rate of joblessness amongst couple and sole parent families has fallen, this has largely been offset by an increase in the proportion of families headed by sole parents.

Many sole parent families experience multiple levels of disadvantage that impact upon both the parent and their children, over the short and the long-term. These include:

- Lower rates of employment amongst lone mothers than amongst partnered mothers.
- Long-term dependency on income support. Recent analysis estimates that women coming onto Parenting Payment (Single) may, on average, spend more than 12 years on income support of one kind or another while they still have dependent children (Gregory and Klug 2002).
 - In addition, FaCS analysis of parents who were receiving Parenting Payment (Single) at the time their youngest child turned 16 and they lost eligibility for parenting payment, indicates that over 50 per cent were still in receipt of some form of income support five years later.
- Preliminary research by Gregory and Klug (2002) also suggests that in addition to the initial trauma of the relationship break-up that resulted in many women becoming sole parents, many of them have ongoing unstable relationships. The research found that many low-income women cycle between single and partnered parenting payment status.
- Lower levels of educational attainment: for example, 52.5 per cent of female sole parents finished schooling prior to Year 12, compared to 39.3 per cent of mothers in couple families. This difference continues at higher levels of education, with 27.1 per cent of lone mothers compared to 30.1 per cent of those in couples having a diploma or skilled vocational qualification, and just 9.0 per cent with a degree or higher qualification, compared to 16.3 per cent of partnered mothers (ABS Household Expenditure Survey 1998-99).
- Higher levels of mental health problems, as discussed in the section on 'People with Disabilities'.
- High levels of hardship, as evidenced by going without meals and heating, having to sell or pawn items or receiving assistance from welfare organisations (see Chapter 5);

While not all sole parents experience this type of disadvantage, where it occurs it points to a significant barrier to participation and generally results in poor outcomes over the lifecycle.

Welfare reform is seeking to address a range of barriers for all low-income parents, initially through changes introduced as part of the *Australians Working Together* package. The changes will support parents to build skills and to plan for the future and a return to work.

Implicit in these programs is a recognition that the poor outcomes experienced by many low-income parents, including sole parents, are the result of multiple levels of disadvantage. Addressing these problems requires assistance to go beyond merely providing income support. These programs seek to respond to individual needs and improve overall living standards where possible.

Policy focus is on balancing work and family

In addition to these specific initiatives, more broadly, given the ways in which families combine working and caring, a focus for policy is to assist families to find the right balance to meet their needs and circumstances. Details of some of the programs to enable this are in chapter 3 and they include:

- family and parenting payments to support families with the cost of caring for children;
- child care benefits and support for the provision of high quality child care to enable parents to participate in the workforce;
- other services to families;
- improving the benefits from work; this includes making work more rewarding for people on benefits through welfare reform, and tax reforms that have enabled families to retain more of the income they earn; and
- direct support for relationships and parenting that can reduce the impact of family stress on people's capacity to manage their work and family responsibilities.

A further important contribution to achieving work and family balance is through workplace relations including anti-discrimination legislation, maternity leave, paternity leave and the various approaches to leave for caring responsibilities.

Assisting those with labour market disadvantage

A number of other groups also face significant labour market disadvantage and high risks of poor lifetime outcomes. These include people with disabilities, Indigenous Australians and migrants. The circumstances of these are considered below.

People with disabilities

The labour force participation rate of working-age people with disabilities in May 1998 was 53 per cent compared to 80 per cent for the population as a whole (ABS 1998b). While these data show that many, and indeed most, people with disabilities can actively participate in the labour market, some people with disabilities experience considerable labour market disadvantage.

Although maximising the opportunities for participation is the goal of current programs, it is recognised that more needs to be done. The current consultation process on *Building a simpler system to help jobless families and individuals* is considering, amongst other issues, how assistance can be provided which recognises the additional needs of many people with disabilities, while supporting their participation.

The area is complex. People experience a wide range of disabilities, which may limit their capacity for participation in various ways. Also, many people with disabilities experience significant labour market disadvantage, which may not simply be due to the direct effect of their disability on their capacity to undertake work, but may also include poor education and training outcomes, poor access to employment opportunities, for example due to mobility issues, and employer attitudes. These effects can be exacerbated by the structure of income support payments which often do not actively encourage participation for people with disabilities

As a consequence, people with disabilities may face multiple disadvantage. As noted, these can include having low education, poor employment histories, broken or unstable relationships, low levels of savings and few other assets to call upon in emergencies, high disability-related costs, as well as the impact of the disability itself. In such cases the disability may be neither the cause, nor the main source, of disadvantage.

Butterworth (2003b), using the 1997 ABS National Survey of Mental Health and Wellbeing, has found a high prevalence of mental health problems amongst working-age income support recipients. An estimated 30.4 per cent of working-age income support recipients have some common mental health disorder,

compared with 18.6 per cent of the working-age population not on income support. Female lone parents receiving income support appear to have particularly high levels of mental health problems and face multiple barriers, as shown below.

Table 2: PREVALENCE OF BARRIERS AND NUMBER OF BARRIERS AMONGST LONE AND PARTNERED MOTHERS RECEIVING INCOME SUPPORT AND NON-INCOME SUPPORT RECIPIENT MOTHERS.¹⁵

| | Income support mothers | | Non-income support mothers |
|--|------------------------|-------------------|----------------------------|
| | Lone mothers | Partnered mothers | |
| | % with barrier | | |
| Types of barriers | | | |
| Education/labour market experience barriers | 75 | 64 | 52 |
| Mental health barriers | 47 | 27 | 22 |
| Substance use barriers | 12 | 4 | 3 |
| Physical health problem/disability | 47 | 33 | 32 |
| Traumatic life events (physical/sexual violence) | 47 | 23 | 21 |
| Number of barriers | | | |
| None | 7 | 17 | 23 |
| 1 | 24 | 38 | 41 |
| 2 | 27 | 28 | 23 |
| 3 | 22 | 11 | 10 |
| 4 | 17 | 6 | 3 |
| 5 | 4 | <1 | <1 |

Source: Derived from ABS National Survey of Mental Health and Wellbeing (updated from Butterworth 2003a)

Parents, including lone parents, people with disabilities and other people with multiple and severe barriers are some of the target groups for additional assistance under the Australians Working Together package.

The use of income support for people with disabilities has increased rapidly

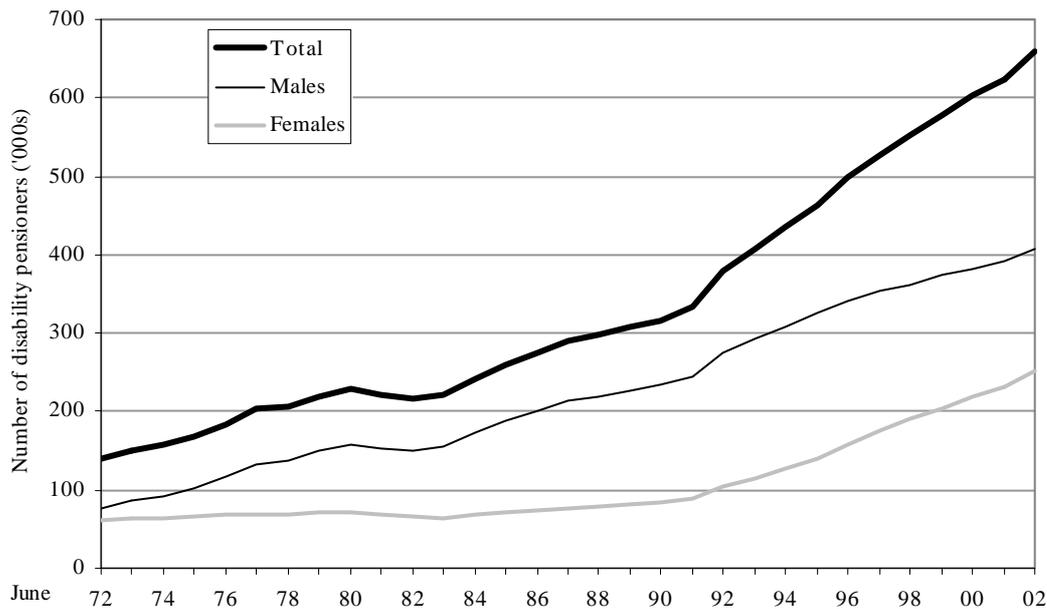
People with disabilities may have a range of support needs, which can include secure long-term financial assistance for those with severely restricted work capacities. The main form of income support under these circumstances is the Disability Support Pension (DSP). This is available to adults who are unable to work 30 hours per week or more, or to be re-skilled for such work within the next two years, because of their disability.

The number of recipients of this assistance, as shown in Figure 6, has grown rapidly, especially over the past decade. In June 2002, there were 658,900 people receiving the Disability Support Pension, 47,700 more than those receiving unemployment allowances¹⁶. In 2001-02 the growth rate for receipt of this payment was 5.6 per cent. DSP customers also have a high probability of being reliant on income support for long periods. Two-thirds of DSP customers are aged over 45; and on average, DSP recipients stay on the payment continuously for seven years. Over half of the people coming onto DSP come from other income support payments, principally Newstart; and the vast majority stay on various payments for the rest of their lives (Department of Family and Community Services 2002b).

Although receipt of this assistance only requires that a person be unable to undertake at least 30 hours of employment per week, the level of economic activity of participants is low. Administrative data for June 2002 indicate that only 9.7 per cent of DSP recipients reported any earnings in the month. Even allowing for the many recipients who have a very low potential for participation, this figure suggests that there is scope for higher participation by many others.

The capacity for higher rates of participation can be seen in the experience of other countries. A recent OECD report found that, of the 20 countries studied, Australia had the lowest employment rate of people receiving disability benefits (at around 10 per cent) (OECD 2003 pending).

Figure 6: NUMBER OF DISABILITY SUPPORT PENSIONERS 1972-2002



Source: FaCS Characteristics of Disability Support Pension Customers (2002) Table 1.1.

A number of factors may have contributed to this growth in numbers on DSP. An underlying factor is demographic change, including growth in the older working-age population as the baby boomer population begins to age. This has been exacerbated by:

- an increasing number of DSP recipients who have transferred from other payments where they have already had extensive periods without labour market participation;
 - one emerging group is lone parents, who, at the point their eligibility for assistance terminates when their youngest child turns 16, may not have been in employment or education for many years;
- the use of DSP by some for de facto early retirement, either voluntarily or after being discouraged in their job search; and
- the impact of other program changes, such as increasing the Age Pension age for women, and the imminent or recent closure of Widow B Pension, Mature Age Allowance and Partner Allowance to new claimants.

Such trends might be reinforced by the financial incentives for people to receive DSP in preference to other payments due to the payment of a higher non-taxable rate of assistance, more generous means-testing and more comprehensive concessions, as well as not having participation requirements.

Although the legislation to reform the DSP was recently defeated in the Senate, the Government has stated that it remains committed to welfare reform, to improving opportunities for people with disabilities and to targeting funding to people with disabilities who have the highest support needs. Programs to assist people with disabilities, and also their carers are discussed in Chapter 3.

Indigenous Australians

Indigenous people, as a group, face a wide range of disadvantage. Table 3 compares Indigenous and non-Indigenous outcomes across a range of social indicators, illustrating poor outcomes across a wide scope.

The Census unemployment data in Table 3 show that the Indigenous unemployment rate is almost three times higher than the non-Indigenous rate. The data, however, include as employment participation in Community Development Employment Projects (CDEP), a Government funded employment program. If

the impact of CDEP is excluded and participants are treated as unemployed, the Indigenous unemployment rate would rise to 34.2 per cent.

Table 3: INDIGENOUS SOCIAL INDICATORS, 2001¹⁷

| Social Indicator | Indigenous | Non-Indigenous | Ratio |
|---|-------------|----------------|-------|
| Employment | | | |
| Unemployment rate | 20.0% | 7.2% | 2.8 |
| Employment to population ratio | 41.7% | 58.9% | 0.7 |
| Labour force participation | 52.1% | 63.4% | 0.8 |
| Occupation | | | |
| Occupation unskilled (labourers) | 24.7% | 8.6% | 2.9 |
| Managers, administrators, professionals | 15.6% | 28.2% | 0.6 |
| Income | | | |
| Median weekly individual income | \$200-\$299 | \$300-\$399 | |
| Median weekly family income | \$600-\$699 | \$800-\$999 | |
| Housing | | | |
| Currently renting | 63.5% | 25.1% | 2.5 |
| Home owner or purchasing | 33.4% | 72.7% | 0.5 |
| Mean household size | 3.4 | 2.6 | 1.3 |
| Education | | | |
| Did not go to school | 3.2% | 1.0% | 3.2 |
| Left school before completing Year 10 | 33.4% | 17.9% | 1.9 |
| Post-school qualification | 17.0% | 39.6% | 0.4 |
| Families with dependent children | | | |
| Sole parent families | 38.1% | 21.3% | 1.8 |

Source: ABS 2001, Census of Population and Housing: Indigenous Profiles (2002.0)

Many of the poor outcomes for Indigenous people shown in the table are inter-related. Low levels of education are likely to impact on employment levels and occupation status, which in turn impact on incomes and home ownership. Other factors contributing to poor social outcomes for the Indigenous population include a lack of viable labour markets in rural and remote areas, low levels of Indigenous labour migration and employer discrimination (Altman 2000).

The structure of the Indigenous population underlines the need to address these issues. The Indigenous population is characterised by high fertility levels and high mortality rates (House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs 2001). In 1998-2000, life expectancy for Indigenous males was 56 years, 21 years less than the total male population; and for Indigenous females it was 63 years, 20 years less than the total female population (ABS 2002b, p86). The result is that the Indigenous population is young and the Indigenous workforce-age population is increasing. Not only does this create a high need for early intervention to seek to limit the extent to which existing disadvantage is transferred to young Indigenous Australians, but also, unless there is a substantial increase in employment amongst the Indigenous population, there is a risk that already high levels of Indigenous unemployment will rise even further.

At the same time the Indigenous population is highly diverse. As Altman (2000, p v) states:

“[at] one end of a spectrum are those [Indigenous people] residing in urban settings and engaging with the market economy ... At the other end are those who reside in remote parts of Australia and maintain important aspects of the Indigenous economy.”

In 1996 almost a third of the Indigenous population is estimated to have lived in major urban areas, four in ten in smaller urban areas, and slightly over a quarter lived in rural areas. There is also a high level of inter-marriage between Indigenous and non-Indigenous people, with 40 per cent of Indigenous households being mixed (Altman 2000, p1).

Addressing Indigenous disadvantage, while recognising the diversity within the Indigenous population, requires policy approaches that are sensitive and responsive to a wide range of needs and circumstances. This has led to a focus on flexibility and capacity building, with targeted programs and assistance. Details on some of the major initiatives are in chapter 3.

Migrants

People born outside Australia experience a very wide variety of outcomes, depending on matters such as language skills, previous education and work skills, links to Australia, cohort and circumstances of arrival and cultural heritage.

One way of looking at direct outcomes, rather than proxies, is to examine the incidence of ‘multiple hardship’ of people born overseas.¹⁸ Analysis based on the Australian Bureau of Statistics’ most recent Household Expenditure Survey shows that 3.4 per cent of the Australian-born population reports outcomes which were classified as multiple hardship. Those regions of origin associated with poorer outcomes are Other Oceania at 5.1 per cent, North Africa and the Middle East at a rate of 5.4 per cent, the Americas at 5.9 per cent, and Sub-Saharan Africa, at 3.9 per cent. By contrast, those regions associated with better outcomes than Australia are North West Europe at 2.0 per cent, Southern and Eastern Europe at 1.3 per cent, South East Asia at 2.6 per cent, Southern and Central Asia at 1.9 per cent and North East Asia which had a zero rate (Bray 2001).

Unemployment rates for people from different countries of origin also show this mixed picture. While overall rates barely differ, at 6.1 per cent for Australian born compared to 6.2 per cent for those born outside Australia, it is clear that there is considerable variation within this. For instance, the unemployment rate for those from the main English-speaking countries is 4.6 per cent, compared to 7.3 per cent for those from other countries. Unemployment rates over 10 per cent are experienced by those from the former Yugoslav republics, the Middle East and North Africa and Vietnam, while very low rates of below five per cent characterise those from Germany, Greece, Italy, the Netherlands, the United Kingdom, and New Zealand.¹⁹

Lifetime participation and the challenges of population ageing

The Government’s *Intergenerational Report 2002-03* (IGR) reports that the proportion of the population aged over 65 tripled during the past century. It projects that by 2042 almost a quarter of the population will be aged over 65 (see Table 4). Of the workforce age population, the most significant increase is expected in the 55 to 64 year old age group, which is projected to increase by more than 50 per cent over the next two decades (IGR 2002, p22).

Table 4: AUSTRALIAN POPULATION PROJECTIONS FOR SELECTED AGE RANGES 2002-2042

| Age range (years) | 2002 | 2012 | 2022 | 2032 | 2042 |
|-------------------|----------|------|------|------|------|
| | Millions | | | | |
| 0 to 14 | 3.9 | 3.8 | 3.8 | 3.8 | 3.7 |
| 15 to 64 | 13.2 | 14.6 | 15.1 | 15.3 | 15.4 |
| 65 to 84 | 2.2 | 2.7 | 3.8 | 4.7 | 5.1 |
| 85+ | 0.3 | 0.4 | 0.5 | 0.8 | 1.1 |
| Total | 19.6 | 21.5 | 23.2 | 24.5 | 25.3 |

Source: Commonwealth of Australia 2002b

While recognising the impact of this, and the resultant pressures on government spending, the structure of Australia’s ‘three-pillar’ approach to retirement incomes means we have in place arrangements which have the potential to enable us to manage the impact of our ageing population and to deliver appropriate standards of living to retirees. These pillars comprise:

- means tested age and service pension payments;
- compulsory employer superannuation contributions; and
- voluntary superannuation and other private savings, including home ownership.

By 2050, with a fully mature Superannuation Guarantee, it is expected that the proportion of the population aged 65 and over receiving income support payments²⁰ will have fallen from 82 per cent (March 2002) to 75 per cent. It is also expected that around two-thirds of pensioners will receive a reduced rate of pension because of the value of their other sources of income, compared to around one third today.

However, longer retirement periods will put pressure on retirement savings and living standards

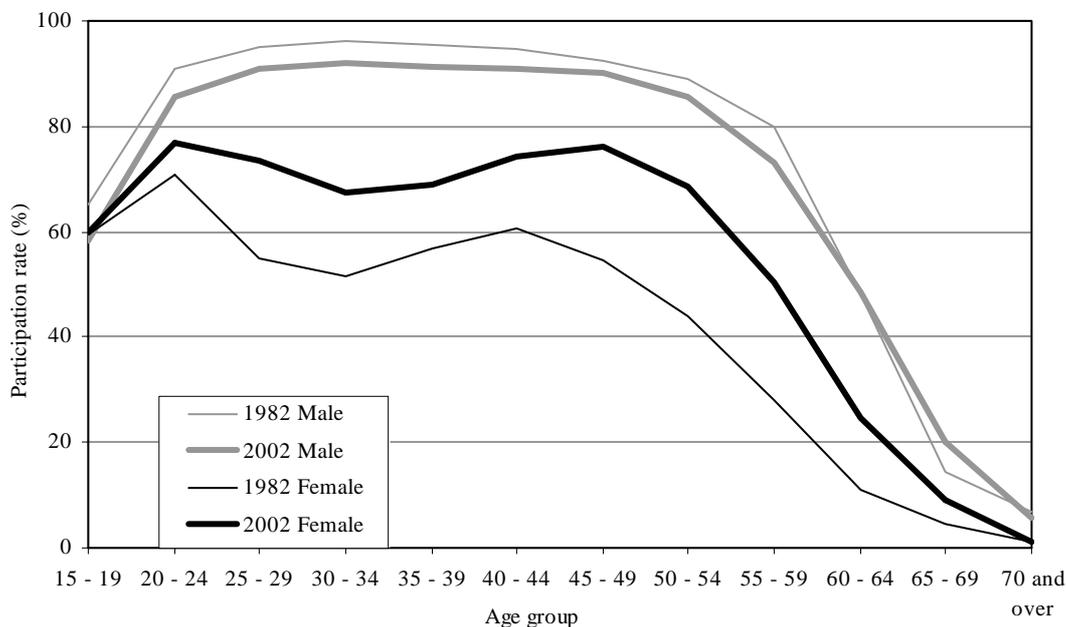
The *Intergenerational Report* notes that in the past 40 years, Australians' life expectancies have increased by more than 8.3 years for men and 7.6 years for women. The report projects that, by 2042, life expectancies will have further increased by an average of 5.3 years for men and 4.9 years for women (IGR 2002, p20).

At the same time as Australians' life expectancy has been increasing, the length of time they are in the labour market has also been changing.

- Women, as observed earlier, have demonstrated a strong upward shift in labour force participation across all age ranges, other than the youngest (reflecting higher education participation) and the very oldest.
- Men, in contrast, have shown quite different patterns. Over the longer term participation has fallen for all age groups, especially amongst older age groups.
 - More recently, as shown in Figure 7, this trend has continued, other than for the 60 to 64 years age group and older groups. This latter suggests a slight reversal of earlier trends towards rapidly falling participation by these age groups.

The result of these changes means that a quarter of men and half of women in the 55-59 year age range are not in the labour force. Taken together, the increase in life expectancy and the propensity towards early retirement mean that people are going to spend longer in retirement. An OECD study reports that between 1970 and 1999, life expectancy at effective retirement age²¹ for Australian men increased from 12.6 years to 18.7 years, and for women it increased from 17.7 years to 23.4 years (OECD 2002c).

Figure 7: LABOUR FORCE PARTICIPATION BY GENDER AND AGE, 1982 AND 2002



Source: ABS Labour Force, Selected Summary Tables, Australia monthly (2003), Cat No. 6291.0.40.001, Table C6.

The extent to which these trends will continue is unclear. In the case of older women, the cohort effects seen earlier in Figure 4 have yet to fully work through to the older groups. Further, although it can be anticipated that life expectancy will increase, labour force participation is the product of a wide range of personal and institutional factors on both the supply and demand side. One area of concern is that, as people get richer in absolute terms, many feel they can afford the luxury of a long retirement. This, though, can give rise to difficulty in maintaining retirees' living standards relative to the rest of the society over extended periods of growth.

Longer periods in retirement therefore mean that retirement savings must last longer or living standards, in both absolute and relative terms, may be affected. This highlights the importance of maximising economic participation while people are of workforce age. Periods out of the workforce affect people's capacity to accumulate retirement savings. Early retirees risk reducing their retirement savings by not only reducing the period during which they can accumulate savings, but also by drawing on those savings over a longer period. In addition maintaining some level of workforce attachment after the age at which they gain eligibility for a pension or superannuation may be an important strategy for supplementing retirement incomes and maintaining living standards.

Welfare reform is seeking to address early retirement incentives in the income support system and improve participation

Over 20 per cent of the workforce-age population is dependent on income support payments. Reflecting the labour force participation rates discussed above, this increases significantly for older age groups. Almost 30 per cent of people aged 50 to 64 years receive income support. Of these, 87 per cent receive pensions or non-activity tested allowances.²² Most people who come onto payment after the age of 50 do not leave income support, but simply move onto the age pension.²³ In effect, working-age income support becomes a form of early retirement for these people.

In contrast to those of Age Pension age, where increased participation is seen as a matter of individual choice, welfare reform is seeking to increase participation of workforce age income support recipients. Details on programs are discussed in the next chapter.

Summary

The welfare of Australians is largely the product of their lifetime economic participation.

Maximising this is a key focus of social policy, not just for the benefits that accrue to individuals, but also because of the contribution this participation makes to national well-being, and as a consequence the efforts the nation can make to assist those facing disadvantage. There has however been a long-term trend in the increasing use of income support payments by people of working-age. Key drivers including increasing numbers in receipt of disability payments and in lone parent families. The rates of economic participation by these groups are low.

There is increasing evidence that disadvantage is not the result of any single factor, but rather those with poor outcomes have them as a result of multiple disadvantage. Current income support programs leave many of these people on payments that have no requirement for, and little encouragement towards, participation. Devising effective policy responses to this is not a simple exercise, but the current consultations on working-age payments represent an important step towards developing a new approach.

Addressing multiple disadvantage, however, requires much more than just the provision of income support, and the rate at which this is paid. An important priority is also in addressing the needs of children, especially those in vulnerable situations, to build higher levels of resilience and minimise intergenerational impacts.

It is also important that analysis takes a lifecycle perspective, so that short-term circumstances can be balanced against longer term outcomes.

Increasing levels of participation by women have improved welfare outcomes for many families. They have though also highlighted questions of supporting effective work and family balance. Programs, including Child Care Benefit, play an important role in this.

Population ageing introduces many new pressures. In coming decades there will be little growth in the working-age population and increasing numbers of elderly people. Health care and other costs will place a higher burden on government expenditures, and reduce flexibility for other expenditures.

Increasingly, the well-being of this growing group of older Australians will be as a result of their savings and investment in superannuation and other assets. It follows that those who had lower levels of participation while they were of working-age face the consequences of this not just at the time, but again in their older years.

Part II: Current Welfare Assistance and Outcomes

Chapter 3 The Australian Social Support System

Chapter 4 Economic and social trends

This part of the submission provides background on the structure of the Australian Social Support System and on the economic and social changes experienced in Australia over recent decades.

The focus of chapter 3 is on the activities of the Department of Family and Community Services, and in particular the nature of income support payments. As discussed, these cannot be considered in isolation from other components, such as earnings and taxation, or the impact of services and concessions.

Chapter 4 reports on trends in employment, unemployment and earnings, and how these together have resulted in changes in household incomes and income distribution.

3. Australia's Social Support System

Chapter 1 highlighted how the welfare of Australians is the result of the interaction of many public and private activities. This, in its broadest sense, can be considered as Australia's welfare system. This chapter focuses on the actions of government in this system, primarily as this relates to the expenditure side of social support. This latter role primarily has two main components: the provision of basic income support to those without their own sources of income, and the payment of supplementary assistance, to families in particular, in recognition of their particular needs and community responsibilities.

The broader context of these is critical, especially when viewed from a lifecycle perspective and with regard to the impact of taxation on incomes and incentives. It is also relevant in interpreting the Australian system and in international comparisons.

The Australian system is unusual in the international context, particularly the structure of the income support system, and in the interaction of the income support system with other components of social support. Some key features that make the Australian system distinctive are:

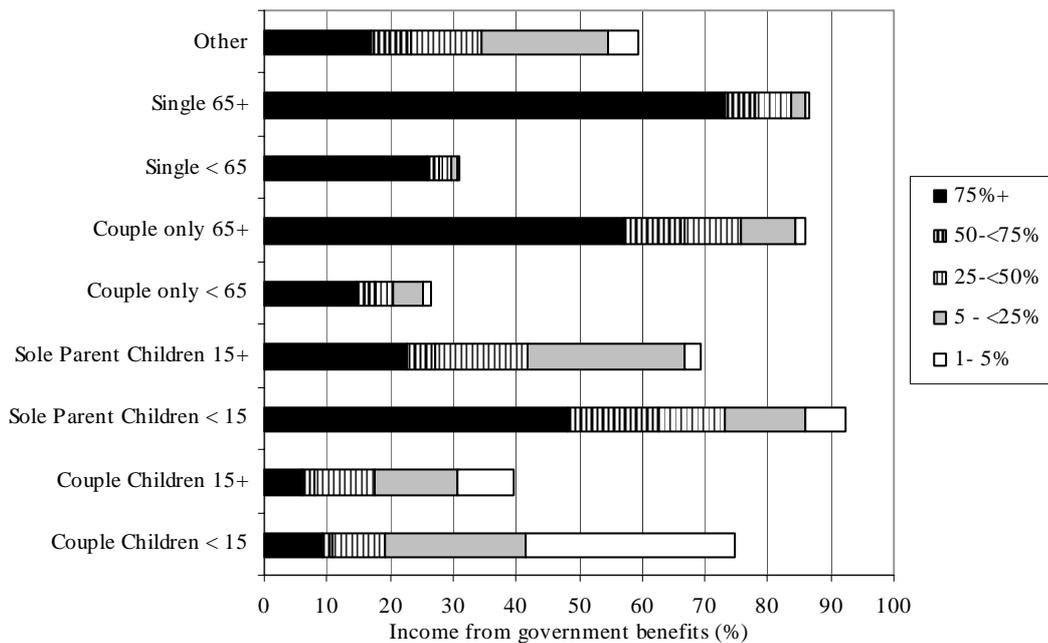
- provision of social assistance through tax funded expenditure rather than through self, employer or hypothecated funded insurance schemes as the main form of assistance;
- few, if any, time limits on the receipt of assistance;
- the extensive capacity to combine paid work with income support and other cash assistance;
- the encouragement of private provision, in areas such as superannuation and home ownership, encouraged by generous taxation arrangements;
- low taxation and low expenditure on income support by OECD standards; that is, assistance tends to be more highly targeted and there is less 'churning' where households simultaneously pay high taxes and receive high levels of assistance.

A number of these features reflects the fact that the system is designed for protection against, or alleviation of, poverty and hardship, rather than earnings replacement, as is common overseas (Whiteford and Angenent 2002, p13). A further contrast is that the system is highly redistributive. That is, while Australia has relatively low overall outlays, expenditure is well targeted (Whiteford and Angenent 2002, p50).

In many cases income support complements other income

The extent of the interaction of income support and other sources of income is illustrated in Figure 8. This shows the distribution of households by the proportion of income they receive from income support. Across the population, only a minority, 43.1 per cent of households, report receiving no assistance from government pensions and benefits, while at the other extreme, only 16.3 per cent are almost wholly dependent upon this assistance. Some of this pattern is as a result of recipients of pensions and benefits living with other people, but much more reflects the extent to which government financial assistance integrates with other sources of income and the ways in which assistance is provided to many households, not as a consequence of their basic needs, but rather in recognition of the responsibilities they have, for example, caring for children.

Figure 8: HOUSEHOLDS, 1997-98 PROPORTION OF HOUSEHOLD INCOME FROM GOVERNMENT PENSIONS AND BENEFITS.



Source: FaCS, derived from ABS 1997-98 SIHC Cat No. 6544.0.15.001.

The extent of this interaction has led to considerable complexity in payment systems and in the interface of these with taxation and with other sources of income. Finding ways to simplify this is one of the key goals of the current consultations on the reform of assistance to the people of working-age.

Commonwealth Government Income support

The Commonwealth is responsible for the great majority of social security and welfare expenditure (93 per cent in 2000-01), and these outlays constitute around 36 per cent of all Commonwealth expenditures (ABS 5512.0, 2000 and 2001, p7). The bulk of this expenditure is on the payments of pensions and benefits to individuals. The Department of Family and Community Services is responsible for most income support, delivered through Centrelink, while veterans and their dependants are paid by the Department of Veterans' Affairs.

FaCS Income support payments

The income support system is often referred to as being categorical in its structure. That is, it consists of a number of quite distinct programs with specific eligibility criteria directed at particular groups in the community, the main categories being: unemployed people, older people without jobs and without recent workforce experience, students, the aged, people with disabilities and their carers, parents with primary care responsibilities, and people with a short-term illness. Each payment is classified as either a pension or an allowance, and different rates and conditions apply to each class of payment.

Table 5 summarises some of the major payments and their eligibility criteria. Fuller details are available in the Centrelink publication: *Centrelink Information – A Guide to Payments and Services 2002-2003*.

Table 5: MAIN FACs INCOME SUPPORT PAYMENTS AND ALLOWANCES

| PAYMENT | WHO IS THE PAYMENT FOR? | RECIPIENTS AS AT JUNE 2002 |
|---|--|--|
| Income support payments | | |
| Age Pension | Men aged over 65 and women aged over 62, subject to residency, income and assets tests. | 1,810,779 |
| Parenting Payment | Carers of children under 16 years, primarily in single income families (including sole parent families) with low income. Parenting Payment Single is paid according to pension rates and conditions; Parenting Payment Partnered is an allowance. | Parenting Payment (Single) 427,846 Parenting Payment (partnered) 191,576 |
| Newstart | Unemployed persons aged over 21 and actively looking for work. | 523,872 |
| Disability Support Pension | People with a physical, intellectual or psychiatric impairment that prevents them from working full-time (30 hours per week) for the next two years. | 658,915 |
| Carer Payment | People who provide full-time care to someone with a severe physical, intellectual or psychiatric disability who is expected to require this care for at least 6 months. Paid under pension conditions. | 67,260 |
| Youth Allowance | Full-time students under 25 and unemployed people aged 16-20 years. Income tested on both individual and parental income. | 87,304 unemployed 308,192 full-time students |
| Sickness Allowance | People aged over 21 who are temporarily unable to work or study because of illness, injury or disability. | 9,522 |
| Austudy | Students aged 25 years and over; paid as an allowance. | 41,007 |
| Special Benefit | People ineligible for other assistance and in severe financial need due to circumstances beyond their control. Paid as an allowance. | 12,811 |
| Widow Allowance | Women aged over 50 who become widowed, divorced or separated and have no recent workforce experience. | 40,910 |
| Wife pension, Widow B pension, Partner Allowance and Mature Age Allowance | These four payments are either closed to new grants or due to close in September 2003. The first three have been entirely or primarily taken up by women, while Mature Age Allowance has largely enabled older men to begin an early transition to retirement. | Wife (DSP): 44,238 Wife (Age): 23,730 Widow B: 5,130 Partner: 100,833 Mature Age: 39,906 |
| Other payments | | |
| Family Tax Benefit (A) | Families with children under 16 or full-time dependent students aged 16-24; income tested on family income | 2,140,201 families |
| Family Tax Benefit (B) | Single income families, including sole parent families, especially those families with a child under the age of five (who receive a higher rate of payment). Income tested on second earner's income only in two-parent families. | 1,199,019 families |
| Childcare Benefit | Families using either formal child care or informal (registered) child care. This subsidy either reduces fees at a child care service, or can be paid as a lump sum to parents at the end of the year. Income tested on family income. | 486,300 families, plus up to 23,100 potential lump-sum claimants |
| Rent Assistance | Pensioners and beneficiaries boarding or renting (excluding public housing) | 943,877 (number of persons or couples receiving assistance) |

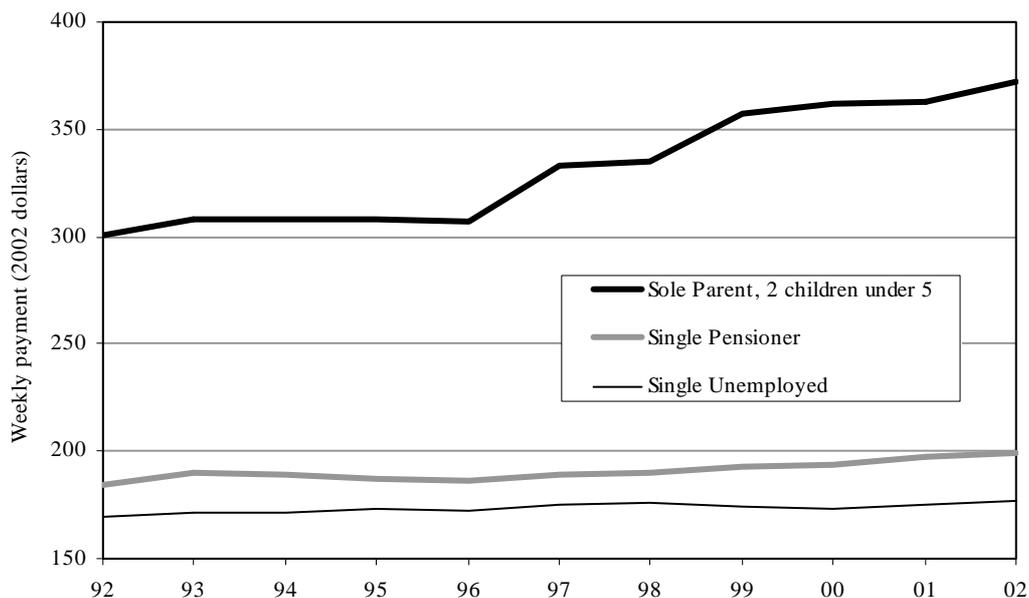
Source: FaCS 2002a

Pensions are paid at the rate of \$11,195 per annum (\$429.40 per fortnight) for a single person and \$9,344 per annum (\$358.40 per fortnight) for each member of a couple.²⁴ Allowances are somewhat less, at \$9,774 per annum (\$374.90 per fortnight) for a single childless person and \$8,815 per annum (\$338.10 per fortnight) for each member of a couple. In addition, many recipients receive additional allowance for rent and other costs and financial support for children.

The more favourable rates of payment and taper rates applying to pensions by comparison with allowances have led to unintended effects, such as lower incentives for people on Disability Support Pension to take up part-time work, or for those on Parenting Payment Single to reconcile or repartner. It also entrenches differences between groups that in fact may be very alike, such as an older person on Disability Support Pension with a moderate disability compared with an older person on Newstart (Commonwealth of Australia 2002a, p7). This issue is currently a matter for public consultation by the Working-Age Task Force of FaCS.

Adjustment of pension rates in line with community living standards has been guaranteed by legislation. In 1997, for the first time, the maximum single rate of pension was set in legislation to be at least 25 per cent of Male Total Average Weekly Earnings (MTAWE). Income support, and other, payments are also adjusted in line with the Consumer Price Index (CPI) to ensure that they are maintained in real terms. The Newstart allowance single adult rate equals 22 per cent of pre-tax MTAWE, and in June 2002 was 43 per cent of the pre-tax minimum wage (FaCS 2002a, p155). In addition, pensioners and beneficiaries gained significant increases with the introduction of the New Tax System.

Figure 9: REAL RATES OF INCOME SUPPORT PAYMENTS: SINGLE ADULT UNEMPLOYMENT BENEFIT, SINGLE PENSIONER AND SOLE PARENT WITH TWO CHILDREN UNDER 5 YEARS OF AGE, 1992–2002 (\$2002)



Source: FaCS analysis.

In this, and other figures and analysis in this paper, the 'All Groups CPI' has been used to take account of price changes over the period shown. The appropriateness of this has been questioned at times because of a concern that this index does not take account of the way in which prices impact differently on various groups in the community. To answer this question ABS has also developed 'Analytical Living Cost Indexes' which they consider:

“are particularly suited for assessing whether or not the disposable income of households have kept up with price changes” (ABS 1350.0, June 2001 and December 2002).

Four such indices have been produced. The four household types are employees, age pensioners, other government income support recipients, and self funded retirees. These have been calculated by ABS for the period from June 1998 to June 2002.

While there are some differences in the impact of price changes in each of these indexes, the overall differences are small. Over the four year period the range of estimates of price increases varied from 12.4 per cent for employee households to 14.0 per cent for age pensioners. These compare to the CPI movement of 13.7 per cent. As these differences are small, the use of the CPI would not appear to introduce any bias into the presentation of data in this paper, nor in conclusions about the real trends in earnings and incomes.

As well as addressing the concerns expressed by some that low income groups face price changes out of step with the community, these data also provide a basis for exercising strong caution about more specific claims about the costs faced by some groups which rely upon a limited number of expenditure items, without placing these in the context of the full range of price movements.

Support for families

Three main forms of assistance are paid to families with dependent children.

- Parenting Payment is paid to people, whether single or partnered, who have the primary care of at least one child aged less than 16 years.
- Family Tax Benefit (Part A) is paid to the majority of families with children to assist with the costs of the children. It has a means test that is generous, ensuring it is widely received, and rates are relatively high for low-income families.
- Family Tax Benefit (Part B) is specifically targeted to single-income families, whether a couple or sole parent, and as such complements the role of Parenting Payment, which is similarly targeted. It only income tests the primary child carer in a couple relationship or the sole parent, as it is designed specifically for single-income families. It is paid at higher rates for those families with children under five years old.

Improving support for families was one of the high priorities of reforms with the introduction of the New Tax System. These included an increase in support to families of an average of \$40 per fortnight. It also included \$12 billion in personal tax cuts overall, as well as changes to income tax and taper rates designed to provide greater rewards for working.

In addition to these payments, a range of supplementary payments is available to assist with various kinds of expenses: rent assistance, mobility allowance, telephone allowance, pharmaceutical allowance, remote area allowance and several other minor payments.

Supporting individual earnings and savings – income and assets tests

Payments are subject to both assets and income testing with the details of these differing between payments. The overall goal of this is to encourage people to participate in employment and in saving strategies by ensuring that they have incentives to do so, while at the same time targeting assistance to those who need it.

Income testing consists of two components: a free area where income does not affect the payment, and a taper where assistance is reduced as a person or household has a higher private income.

- Free areas range from some \$1,600 per annum for a childless single allowee to just over \$3,000 per annum for a similar pensioner.
- Taper rates above the free area vary between 40 per cent and 70 per cent for income support payments and 30 per cent for family payments, depending on the type of payment, the amount of income and the family structure.

Taking these two components together, a significant annual income can be earned before eligibility is extinguished.

- For allowees, these are around \$16,000 for a single person and over \$29,000 for a couple.

- For pensioners, they range from \$31,000 for a single person to \$52,000 for a couple.
- These points can be even higher when the recipient has dependent children.

As was illustrated in Figure 8, these provisions are quite widely used by recipients. Administrative data indicate that 15.3 per cent of Newstart allowees receive a part rate due to the means test.

While the assets test also varies, in general it is very generous, with, for example, a pensioner couple with assets of almost \$450,000, in addition to a home, still receiving some pension income and concessions.

This structure, along with the support provided through financial counselling and scope for equity withdrawal from housing, reflects a recognition that individuals and their families make provision for future needs in many different ways. The policies are motivated by the importance of supporting this and in treating these different approaches equitably and in ensuring that individuals are encouraged to use their investments effectively.

The importance of assets and investments to Australia's retirement system can be seen when the circumstances of the aged in Australia are compared to those in other countries. Disney and Whitehouse (2001) estimate that on average an Australian couple aged 67 have financial wealth (that is excluding the value of the home) equal to five times their annual income; this was the highest of the 9 countries they compared, and contrasted with the next highest of 3.8 in Japan and 3.7 in France and a mere 0.9 in the Netherlands and 0.7 in Sweden.

The same study reported on the impact of homeownership. It noted, for example, that amongst the lowest income quintile of age pensioners in Australia 78 per cent owned their homes outright, a rate not much below that of the richest 20 per cent of pensioners where 81 per cent were outright owners. When purchasers are taken into account the gap widens a little bit further as 6 per cent of the higher income group were still purchasing, compared to just 2 per cent of the lower quintile. In contrast, only around half of the equivalent group of pensioners in Canada and the United Kingdom owned their home, as did a third or fewer in Germany and the Netherlands.

Supporting responsibility – Centrepay and advances

Delivery of income support payments also involves some measures which enable recipients to use their support flexibly to meet both a range of existing responsibilities and unexpected costs and to draw upon assets.

The Centrepay facility provides customers with the ability to directly deduct regular payments from their Centrelink or Family Assistance Office payment. It was introduced to help customers better manage their finances and budget for other expenses. Payments are commonly made for rent and other household bills, including electricity, gas and rates.

This program has grown rapidly, and the total of 73,400 customers participating in Centrepay in December 2002 was 75 per cent higher than a year earlier. Other assistance to enable flexibility in payment use is also available through advance payment and through the Pensions Loan Scheme.

Supporting parental participation – Child Care

The Commonwealth provides financial assistance with the cost of child care to support parents to participate in the workforce; to enable them to balance work, family and community commitments; and in recognition of the important role played by child care in providing opportunities for children's development, learning and socialisation.

Child care benefit was introduced as part of the New Tax System in July 2000, and subsidises around 70 per cent of child care costs for a low income family (that is, with combined income less than \$30,806). It is available to low- and middle-income parents. For example, a family with two children can receive more than the minimum amount of child care benefit on a family income of \$95,000.

The Commonwealth has allocated around \$8 billion over four years, from 2002-03, for child care. In 2001-02, it spent over \$1.6 billion, which covered around 720,000 children in approved (formal) care. Of the 508,000 families with children in approved care, an estimated 37 per cent are low-income families.

Up to 50 hours of child care benefit a week is available for each child if both parents or the sole parent are working, studying or training; otherwise, 20 hours a week is available. A major priority for child care places is those families with parents who are working, looking for work, studying or training; these account for around 91 per cent of Commonwealth-funded child care.

Supporting parental responsibility – The Child Support Scheme

The Child Support Scheme was established to provide a mechanism for ensuring that non-resident parents contribute financially to the support of their children and that adequate support is available to children who do not live with both parents.

In June 2002 the Child Support Agency (CSA) had over 650,000 active cases (those with a current liability), involving more than one million children. In 2001-02 the total amount of child support transferred was \$1,450.6 million. The average child support liability in June 2001 was \$3,259 per annum, however, more than 40 per cent of payers had an annual liability of \$1,000 or less. This data reflects the incomes of non-resident parents. Payers had a median income (as assessed by the CSA) of around \$18,400 at June 2001. Further some 20 per cent of those for whom data are available from taxation records rely on government benefits and allowances for their main source of income.²⁵

Child Support payments are important to resident parents, who at June 2001 had a median income (as assessed by the CSA), excluding child support and family tax benefit, of just under \$9,500.

Supporting economic participation

The *Australians Working Together* initiatives form the first stage of the welfare reform process, and comprise a balanced package of extra assistance, incentives and requirements to support working-aged people to take up paid work or become actively engaged in their community. Components include:

- Personal Advisers –to help people identify goals and opportunities; to assess needs and barriers; and to motivate themselves towards greater levels of participation.
- Personal Support Programme – to assist people on income support who have multiple, non-vocational barriers making it difficult for them to work or benefit from assistance to find employment.
- Transition to Work – this offers practical help, such as career counselling, courses to upgrade skills or help with job applications and résumés, to parents, carers and people aged 50 and over with no recent workforce experience.
- Language, Literacy and Numeracy Supplement –to help meet incidental costs associated with undertaking approved language, literacy and numeracy training courses.
- Working Credit – to improve incentives to work by allowing people to keep more of their payments while working.

People aged 50 years and over are one of the main demographic groups dependent upon income support and therefore one of the target groups for the *Australians Working Together* package. The changes introduced through the package will help mature age people to maintain an active lifestyle and enable them to contribute more to the workplace and the community. They recognise the difficulties that some mature age people face in getting into paid work and provide assistance targeted to the specific needs and circumstances of mature age people.

In addition to assistance to older people to support their participation in the labour market, FaCS initiatives seek to encourage community engagement. Components of this include the Stronger Families and Communities Strategy where older Australians have been identified as a key target group. Programs

include: encouraging community participation through projects such as the voluntary work initiative, designed specifically to support income support customers, particularly those aged 50 and over; a matching and referral service to voluntary organisations; supporting grandparents who have caring responsibilities, and the Prime Minister's community business partnership which encourages businesses in local regions to generate opportunities for older workers and other groups.

Parents are also one of the target groups for Centrelink's new Personal Advisers, who will provide parents with information on the benefits of work, tips on balancing work and family and guidance about study, training or volunteering. Personal Advisers will also provide information and referrals to other appropriate support services.

Parents may also be able to access additional support available under the *Australians Working Together* package, including: Transition to Work, which offers practical help such as career counselling, courses and assistance with job applications; financial assistance to eligible parents to participate in accredited training; Intensive Support through the Job Network; the Personal Support Program, which helps people experiencing problems like mental illness and domestic violence; and improved assistance with child care. They will also be able to benefit from the Working Credit which may allow people to keep more of their income support when they work.

Support for workforce participation is also provided through many other mechanisms. One of these is the Pension Bonus Scheme which seeks to introduce some neutrality into the Age Pension system for those older Australians who wish to work beyond the age at which they become eligible for the Age Pension. Under this scheme a tax-free lump sum is paid to older people who defer claiming the Age Pension and continue to work for an average of around 19 hours or more per week each year.

Non-cash benefits – concession cards

In addition to the direct payment of income support, many recipients are eligible for a wide range of non-cash benefits. The key area in which assistance is provided is with the costs of health care, especially prescription medicines, although benefits are much wider than this. They also include concessions from state and local government and discounts from private providers, such as discounts for transport costs, reduced local government rates and charges, concessions on some education costs and additional assistance with telecommunication costs.

Over three million pensioners have Pensioner Concession Cards, while 1.7 million allowees and low income households have Health Care Cards, and the Commonwealth Seniors' Health Card provides concessions to over 275,000 self-funded retirees.

While the costs of concessions and discounts, other than those related to pharmaceuticals, are generally met by the providers, some Commonwealth assistance is provided to the states as a result of the 1993 extension of eligibility for concessions to a wider group. The cost of this compensation was over \$170 million in 2001-02.

The value of concessions to concession cardholders varies greatly, depending on the type of concession card held, the extent of state/territory and local government concessions, and the individual's usage of the concessional services. Estimates put the value of the Pharmaceutical Benefits Scheme benefits at over \$660 per cardholder, and the value of concessions from state/territory and local governments and private providers at \$300 to \$800 per annum.

Given the very high value of these concessions, they act to increase the living standards of eligible income support recipients well above those which would apply if cash income alone were taken into account. As discussed later, an understanding of this value and its distribution is very important in seeking to analyse income distribution and poverty measurements which simply focus on cash benefits.

Other FaCS Services

FaCS is also involved in the provision of a wide range of other services to groups who have low incomes, face particular vulnerability or have specific needs for support.

Some, such as family services and community-building, are delivered directly by FaCS while others, such as housing assistance and disability support, are provided in association with the states.

Family services

Family relationship problems have a strong and direct impact on the welfare of Australians. Relationship problems and break-ups not only often involve high emotional and economic costs to parents, but also to children, with these costs potentially being transmitted across generations.

The Commonwealth provides support in the area of family relationships with the aim of changing people's awareness, knowledge, attitudes and behaviours in relation to parenting and relationships. It provides products and services to enhance parenting and relationship skills, and to minimise the economic and social costs of relationship disruption and breakdown.

The Family Relationships Services Program aims to:

- enable children, young people and adults in all their diversity to develop and sustain safe, supportive and nurturing family relationships; and
- minimise the emotional, social and economic costs associated with disruption to family relationships.

The program contracts some 100 non-government organisations to provide services to families, with expenditure in 2002-03 of some \$50 million. The Child Abuse Prevention Program aims to prevent child abuse by promoting positive parenting.

In addition, assistance to families and others with financial problems is provided by means of the Commonwealth Financial Counselling Program, and through Emergency Relief, which provides grants totalling \$28 million a year to a range of religious, community and charitable organisations to provide emergency financial assistance to individuals and families.

Indigenous Communities

In recognition of the high level of need of many Indigenous communities FaCS has implemented a large number of specific initiatives to support these communities as they seek to strengthen community infrastructure and ensure that assistance is effectively delivered in response to local needs.

Some of the main mechanisms used to deliver these responses are:

- Community Participation Agreements – to allow Indigenous communities to identify practical ways people can contribute to their communities and families.
- Stronger Families and Communities Strategy -- aimed at prevention and early intervention programs for families and communities. A wide range of projects, of which a significant proportion are for Indigenous communities, are eligible for funding under the Strategy, including leadership and networking, skills development for volunteers, and innovative parenting services. More than 500 projects around Australia have been approved, with total funding of \$67.4 million.
- Fixing Houses for Better Health 2 – assisting Indigenous communities to develop the skills to manage and maintain their housing to provide a safe and healthy living environment.
- National Homelessness Strategy Indigenous Projects – specific projects targeted towards Indigenous people who are homeless or at risk of homelessness.

Housing

In addition to the \$1.8 billion that the Commonwealth paid in Rent Assistance to income support recipients in 2001-02, assistance is provided through the Commonwealth State Housing Agreement (CSHA) to provide housing assistance, primarily in the form of public housing. As at June 2002, there were some 343,000 households in public housing, with a further 40,000 in community housing and Indigenous-specific housing.

A new five-year CSHA is under negotiation at present, with the Commonwealth having offered the states and territories \$4.75 billion to commence on 1 July 2003. One of the key principles for this new CSHA is ensuring that housing assistance supports access to employment and promotes economic and social participation. It will seek to address workforce disincentives that may be created through public housing provision, eg by locating housing close to employment, reconsidering rent-setting policies and encouraging employment programs for tenants.

The Commonwealth also funds the Supported Accommodation Assistance Program (SAAP), jointly with the States and Territories, as a crisis response program that provides transitional supported accommodation and related support to people who are homeless or at imminent risk of homelessness. In 2001-02, there were some 1,300 SAAP agencies across Australia, assisting on average approximately 20,000 people per day. The most common reasons for seeking assistance are domestic violence, eviction, relationship or family breakdown, usual accommodation unavailable and financial difficulty. SAAP agencies not only offer accommodation assistance, but other services such as employment and training assistance and a wide range of counselling services.

Disability services

Responsibility for the provision of specialist disability services is shared between the Commonwealth and state/territory governments under the Commonwealth State/Territory Disability Agreement (CSTDA). The Commonwealth, in addition to its income support role both for people with disabilities and their carers, is responsible for administering employment support for people with disabilities, while the state and territory governments are responsible for accommodation and other related support services.

Employment support entails employment placement and/or ongoing support for clients with high levels of disability and high support needs to maintain employment.

The Commonwealth's total funding commitment for the third Agreement is \$4.8 billion, which comprises a \$2.8 billion offer to the states and territories for their responsibilities under the CSTDA – an increase of \$900 million over the previous Agreement's \$1.9 billion, and nearly \$2 billion for employment services – up from \$1.3 billion in the last Agreement.

Achieving effective State Government participation

For Commonwealth/State programs to be effective there is a need for governments to be committed to working in partnership and to recognise the interactions between the goals of the programs and their own activities, both within and beyond specific program boundaries.

While these demands have always resulted in some tensions, and carry with them some risks of parties' attempting to cost-shift to the other or avoid responsibilities, these programs have the potential for effective and targeted results.

Over recent years there have been a number of quite large changes in these arrangements. This has arisen not only from Commonwealth initiatives directed at improving accountability and an outcome orientation, but also because of the major shift in financial arrangements with the introduction of the Goods and Services Tax and the flow of revenues from this to the states.

Notwithstanding this increasing source of revenue, and the large bonus states and territories have gained from the rising property market, very few have taken initiatives to utilise these revenues effectively to

support overall community welfare and have ignored the impact of many of their policies on those who may face disadvantage.

- Housing affordability has been impacted on by the rising payments home purchasers need to pay in stamp duty. For example, home buyers in various jurisdictions may pay from as little as \$2,900 to as much as \$15,000 in stamp duties on purchase of a median priced house, including \$12,200 on a Sydney house and over \$15,000 in Melbourne. Indeed, in 2001-02 the Victorian Government gained a major windfall from rising property values and market activity – with conveyancing stamp duty revenue rising by 47 per cent to \$1.9 billion.
 - In addition to the effect on lower income home purchasers these transaction costs also create barriers for older Australians seeking to move to more suitable accommodation;
 - A process which can also be hindered by lack of flexibility at state and local government levels through planning regulations that limit the type of housing that may be constructed.
- While over 10 per cent of state revenues are gained from gaming and related taxation, their policies on gaming machines and other forms of gambling continue to cause disruption in many local communities.

Supporting self-reliance – investment in superannuation, housing and taxation reform

The Australian social support system not only includes the direct forms of assistance identified above, but also support for self-reliance, including savings. The two major forms of savings for most Australians are through superannuation and home ownership. Each of these, as discussed in Chapter 2, plays a critical role in lifecycle well-being and, with population ageing, will be even more important in the future. In addition, taxation can have a major impact on incentives for people and families. These three elements, and the relationship between them, and the income support system, are discussed below.

Superannuation

In addition to the legislative requirements of compulsory superannuation, the Commonwealth also provides a favourable tax environment for superannuation to encourage the accumulation of superannuation savings as a source of retirement income. This is achieved by taxing superannuation at concessional rates and several other measures.

- A concessional tax rate applies to the employer and deductible member contributions of 15 per cent for low- and middle-income earners plus a 15 per cent surcharge for high-income earners.
- A co-contribution for low-income earners and provisions to encourage self-employed people to contribute to superannuation
- A 15 per cent tax rate applies to the investment income of superannuation funds.

Home ownership

Home ownership has traditionally been the main form of saving for most Australians. Compared to other forms of savings, the tax advantages accruing from home ownership are the exemption from capital gains tax for the family home, and, in some conceptual frameworks, the tax-free status of imputed rents. The income support system also treats homeowners generously, and many income support recipients are eligible for concessions on local government rates.

Since July 2000, the First Home Owner Grant (FHOG) has been in place to offset the impact of the GST, with almost 200,000 households receiving assistance in 2001-02.

While there have been fears expressed about falling home ownership rates in Australia, the rate remains high, with, in 2001, close to 70 per cent of households owning their homes. This rate may well have been

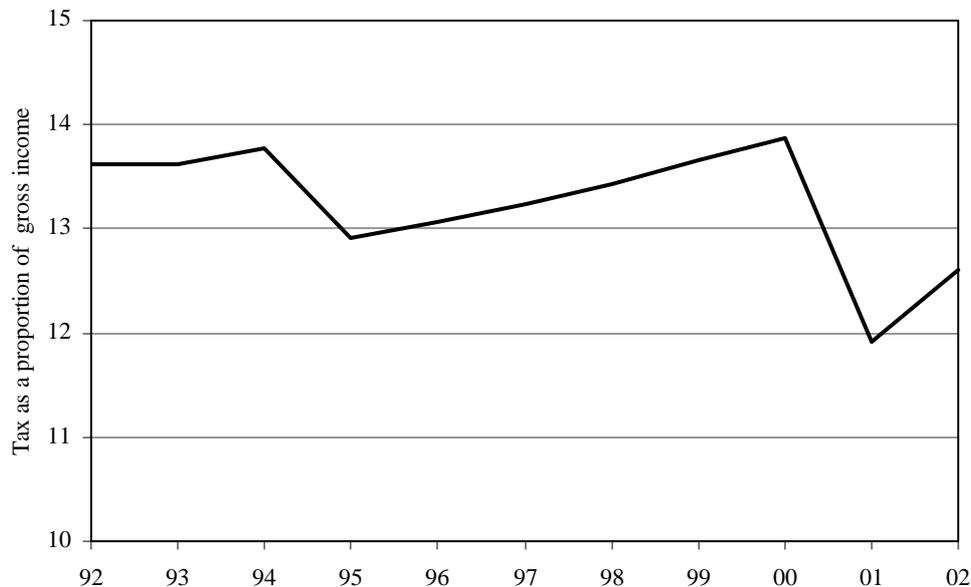
boosted since then by the continuing large surge in home purchase activity as a result of strong economic growth, sustained low interest rates, and the FHOG.

Taxation

The tax system was reformed in 2000, with the Goods and Services Tax (GST) replacing wholesale sales tax and a number of other similar taxes and major cuts in income tax, particularly for middle-income earners. Tax rates dropped from 34 per cent (in the ranges of \$20,701 to \$38,000) or 43 per cent (in the ranges of \$38,801 to \$50,000) to 30 per cent. The top tax bracket was changed to apply to those earning \$60,000 and over from its previous rate of over \$50,000. A consequence of these changes, at the time of their introduction, was that 80 per cent of taxpayers paid 30 cents, or less, for each additional dollar they earned.

Along with these cuts to personal income tax there was a package of measures to compensate those on income support payments and other allowances. Older people with savings were also provided with compensation for loss in the real value of their private savings. Other taxation assistance to the aged continues through the Senior Australians Tax Offset. Figure 10 shows the sharp reduction in the income tax burden on low-income earners that resulted from these changes.

Figure 10: TAX BURDEN ON LOW INCOME EARNERS: SINGLE PERSON EARNING FEDERAL MINIMUM WAGE, 1992–2002



Source: FaCS Modelling.

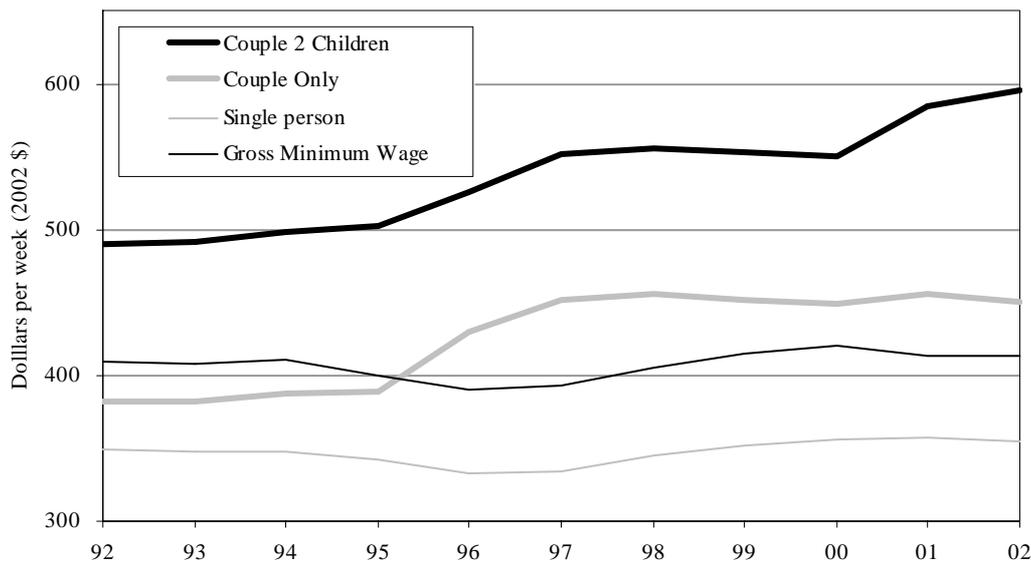
Trends in income – Income support and taxation interactions

There have been many changes in components of the Australian social support system over recent years. In addition to increased earnings, and increased opportunities for earnings, these include real increases in the value of pensions and benefits and falls in taxation. This section considers how these have interacted.

Until the 1980s interactions between the income tax and income support systems were relatively uncomplicated, because the level of payments was generally well below the tax-free threshold. As payment rates rose much faster than this threshold through the 1980s, and as the range of payments was extended, more and more recipients were put in the position of owing tax on their payments. To ameliorate this, special tax instruments for recipients were introduced. These substantially reduce the amount of ‘churning’ (that is, the government paying someone at the same time as they are recovering income tax from them), at the cost of increasing the complexity of both the payment and income tax systems.

The impact of this is seen in the following two figures. The first chart, Figure 11, compares the net incomes of different family structures with a single income minimum-wage earner. The key feature of the chart is the differences in net household income for these different family types, notwithstanding the fact that each is earning the same wage. A couple with two children has a net income some 65 per cent higher than a single person, as a result of the different impacts of taxation and income support.

Figure 11: MINIMUM WAGE: COMPARATIVE NET INCOMES (AFTER TAX AND BENEFITS) FOR SINGLE INCOME HOUSEHOLDS RECEIVING MINIMUM WAGE: SINGLE PERSON, COUPLE AND COUPLE WITH TWO CHILDREN, 1992–2002



Source: FaCS modelling

Dynamically, the main effect is the extent to which changes in the second half of the 1990s have acted to improve the outcomes for families with children.

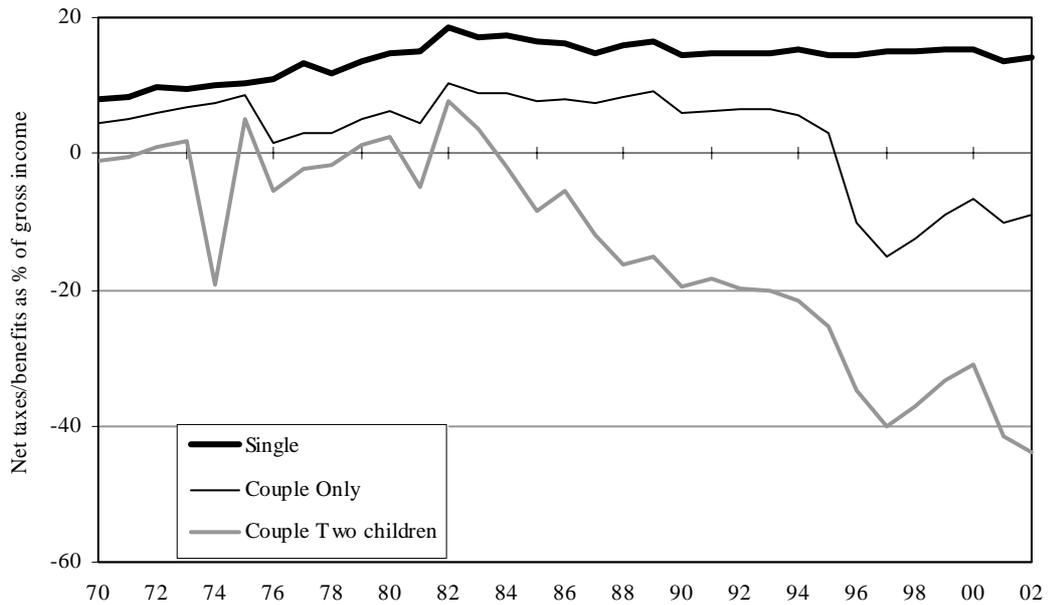
The extent of this change can also be seen in the modelling NATSEM undertook (NATSEM 2001) on the trends in disposable incomes of families with children between 1996 and 2001 for a report on the impact of changes associated with the introduction of the New Tax System, including the GST, the compensation package and also changes to child care support.

They reported on the circumstances of 12 different family types ranging from sole parents fully dependent on income support, through single income couples to dual income couples. The results showed that disposable family income, after taking account of child care, had increased for all these types with the increase being between 6.5 per cent and 18.9 per cent depending upon household type.

The highest increases were recorded by sole parents (12.3 per cent to 18.9 per cent) and single income couples with a wage earner earning Average Weekly Earnings (15.7 per cent).

The effect of increased assistance through the tax, as well as the transfer, system over the past decade to families with children is also the subject of Figure 12. It demonstrates that a very substantial part of the income of low-income working families with children now comes from government assistance, mainly in the form of Family Tax Benefit but also in the form of Parenting Payment. The chart also shows that the liberalisation and restructuring of the income test for income support in 1995 have meant that low-income childless couples can now receive substantial income support, and that the tax burden has been shifted away from low income couples, especially those with children.

Figure 12: MINIMUM WAGE: COMPARATIVE NET DIRECT TAX BURDEN FOR SINGLE INCOME HOUSEHOLDS RECEIVING MINIMUM WAGE, SINGLE PERSON, COUPLE AND COUPLE WITH 2 CHILDREN, 1992–2002

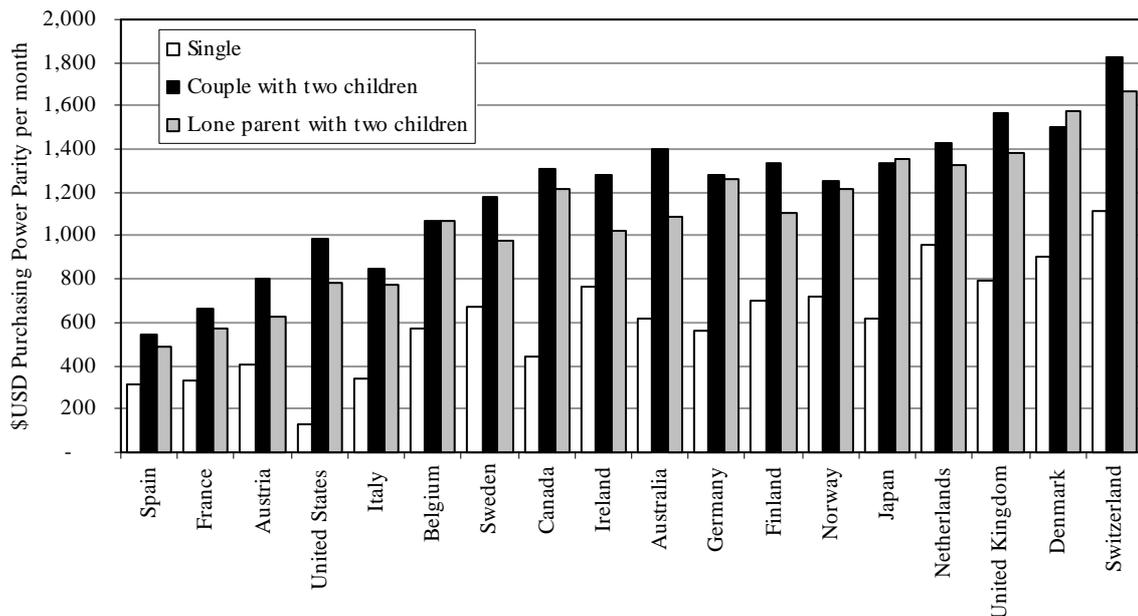


Source: FaCS modelling

Australian rates of income support are relatively high

Figure 13 shows the 1999 rates at which income support was provided in Australia, relative to a number of other OECD countries. The comparison is based on three different household types in which the head of the household is unemployed. The rates are derived from the conversion of national currencies to US dollars on the basis of Purchasing Power Parities. These estimate the relative value of currencies on the basis of their capacity to purchase an equivalent basket of goods in national markets.

Figure 13: PURCHASING POWER COMPARISONS OF VALUE OF INCOME SUPPORT PAYMENTS MADE TO UNEMPLOYED PERSONS AND FAMILIES, MAIN OECD COUNTRIES, 1999



Source: OECD 2002a, 2003a; FaCS modelling

While the Australian ranking varies between the three household types, overall the rates of payment, and the absence of any significant income tax offset against these, place Australia above the average of other countries.

What is particularly marked with the Australian data is the relatively high rate of assistance provided to couple families with children, where Australia pays the fifth highest benefit. Australia is around the middle of the distribution of assistance paid to single persons and sole parents. However, in this latter case, it should be noted that the estimate charted above is based upon a lone parent receiving Newstart Allowance, rather than the higher level of assistance provided under Parenting Payment Single, so as to maintain program compatibility with the estimates of other countries.

In contrast to overseas structures, most Australian lone parents, even if they are unemployed are not on 'unemployment benefits'. In fact in 1999 approximately 80 per cent of all sole parents received Parenting Payment Single, while only around one per cent received Newstart Allowance. The rate of Parenting Payment Single in September 1999 was approximately A\$37 (or US\$29PPP) per month more than Newstart Allowance. This difference has increased more strongly over recent years as earnings growth has outstripped prices. (Parenting Payment Single, like other pensions, is indexed in line with Male Total Average Weekly Earnings, while Newstart Allowance is indexed to CPI.)

Also unlike a number of other countries, the level of assistance provided in Australia, as well as eligibility for assistance, is maintained over time rather than just being for a fixed period. A further limitation is that the data exclude the impact of the strong increases in levels of assistance provided to sole parents, other income support recipients and families, with the introduction of the New Tax System.

The effectiveness of Australian assistance to families is also shown in a study by Bradshaw and Finch (2002) prepared for the United Kingdom Government. This compared child benefit packages across countries. It also found that Australia provided rates of assistance that were above average. The authors devised the following groupings of countries to capture broad differences in the level of child benefit packages.

Leaders: Austria, Luxembourg, Finland.

Second rank: France, Sweden, Germany, UK, Belgium, Denmark, Norway, Australia.

Third rank: Ireland, Israel, Canada, USA and Italy.

Laggards: New Zealand, Portugal, Spain, Japan, the Netherlands and Greece."

(Bradshaw, J and Finch, N 2002, p. 13)

Summary

Australia's income support system is unusual, and contrasts with that of many other countries, with our payments being funded from general revenue rather than on a contributory or 'social insurance' basis. People can therefore receive income support without ever having had an employment history, and payments are available for an indefinite period, provided eligibility conditions continue to be met.

These arrangements are a result of the focus of the Australian system on protection against, or alleviation of, poverty, rather than as a more 'insurance' oriented replacement of earnings, as is common overseas (Whiteford and Angenent 2002, p13). The Australian system is also highly redistributive with expenditure well targeted at those with low incomes. In addition, income support recipients are eligible for a wide range of services and concessions. These act to lift household living standards well above what might be predicted on the basis of cash income alone, and, importantly, tackle many of the dimensions of disadvantage that go beyond just the need for financial support.

Notwithstanding this degree of targeting, Australian rates of support, especially for families, compare quite well with those of other countries.

The relatively generous means tests of many of the basic income support payments, along with the extensive provision of support for families, enables substantial combination of paid employment with income support. For the aged and others, income support operates in tandem with private savings, home ownership and superannuation.

Over recent years income support payments have risen in real terms. This has been particularly marked for families, who have not only gained substantial improvements through both higher rates of assistance and lower taxes, but also have improved their situation relative to other types of household.

The provision of income support is though only one of the many mechanisms used to assist households with needs; extensive program support is provided in many areas, especially to those with the highest needs including Indigenous Australians and people with disabilities. The AWT initiatives are a first step in welfare reforms which seek to promote higher levels of participation where this is possible.

An understanding of Australia's social support system needs to take into account all these components, and the contribution they make to community and individual welfare at many different lifecycle points and various income levels.

4. Economic and social trends

The policies discussed in Chapter 4 can only be effective in the context of a strong economy that generates employment and incomes, and establishes the base to enable programs to be funded.

This chapter examines trends in employment, unemployment and earnings. The main economic backdrop to this is the 1990-91 recession, recovery from this over the remaining first half of the 1990s, and ongoing growth in the second half of the decade into the current century.

Although the detailed discussion of inequality measurement is undertaken in Chapter 5, this chapter reports on some trends in earnings and income distribution.

Since the 1990-91 recession the Australian economy has shown strong growth, with GDP increasing at an average annual rate of 3.6 per cent. This growth has been accompanied by increasing levels of employment and earnings.

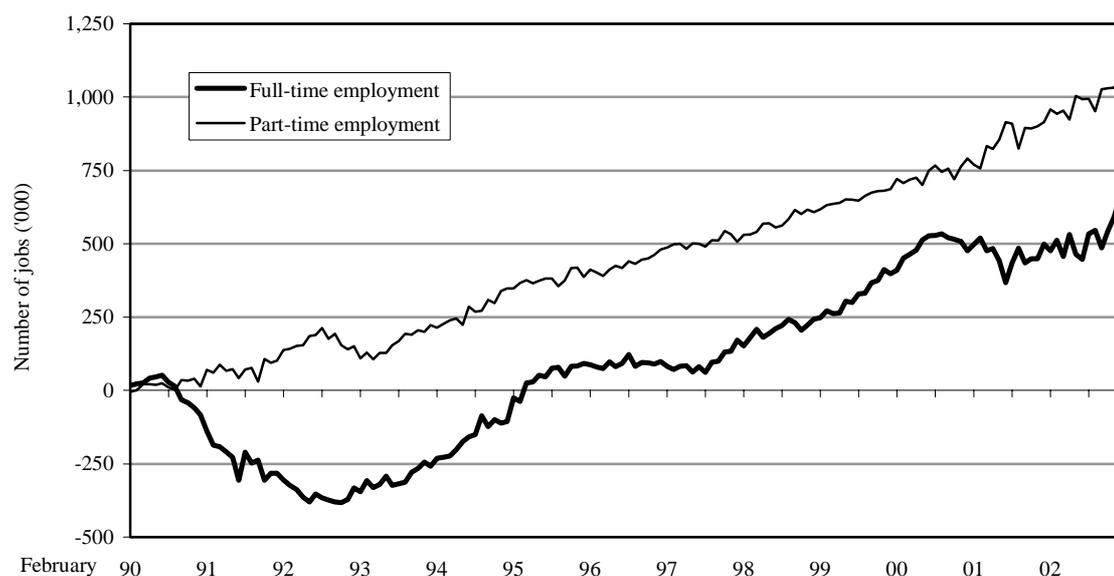
Employment has grown strongly and unemployment has fallen

The recession of the early 1990s caused a sharp fall in full-time employment. As illustrated in Figure 14, full-time employment, although growing since 1993, did not regain its 1990 level until mid to late 1995, after which it plateaued, before resuming growth after 1997.

In particular, since March 1996:

- The number of employed persons has grown by 1,143,100.
- 44.8 per cent of this growth has been in full-time employment, and men and women have both benefited from the increasing levels of employment (Department of Employment and Workplace Relations 2002).
- Growth has been recorded across a wide range of sectors including manufacturing.

Figure 14: EMPLOYMENT GROWTH 1990-2003



Source: ABS (2003), Labour Force Australia, Cat no. 6202.0

These results differ markedly from those recorded in the six years prior to March 1996. Over that period, which included the impact of the recession, not only was jobs growth much lower, but also those jobs that

were created were overwhelmingly part-time, with just 56,700 additional full-time workers being recorded between March 1990 and March 1996, compared to 512,500 since. The earlier period also saw men gain only 25 per cent of the new positions, with a six per cent fall in employment in manufacturing, a 10 per cent fall in mining employment and 15 per cent in finance and insurance. In each of these industries these falls have been reversed in the period since 1996.

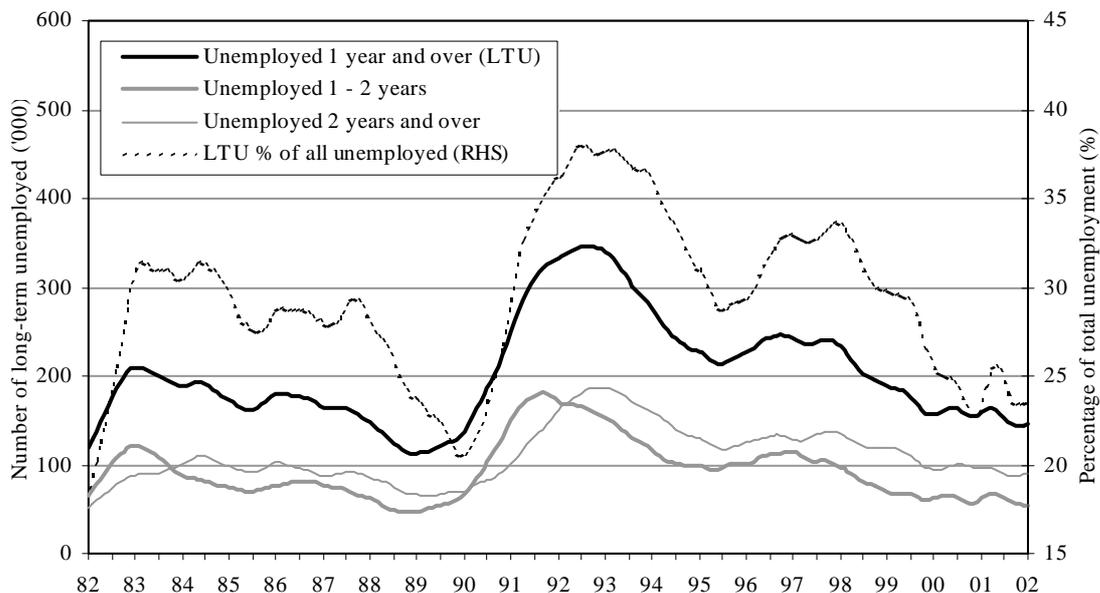
Growing employment has been accompanied by falling unemployment. Between March 1996 and February 2003, the unemployment rate has fallen from 8.2 per cent to 6.0 per cent. There are 111,000 fewer unemployed people, despite an increase in the labour force that has been fuelled by population growth and increasing labour force participation.

The differences in the patterns of growth over the last six years, in contrast to the earlier period, are important to identifying and understanding broader societal trends. In particular, much of the analysis that is currently drawn upon in current debate uses historical data that only take account of changes up to the mid 1990s, or else treats the 1990s as a single period and hence fails to distinguish the very different pictures in the two halves of the period.

Long-term unemployment has also fallen

A consequence of an economic recession, which sees many established employees lose their jobs, is the long time it often takes for people to re-establish themselves in employment; the effects of a severe recession can be seen in the labour market for up to a decade after it is over. Long-term unemployment is an example of this, and has in the past proven to be very intractable, both in Australia and overseas.

Figure 15: NUMBERS OF LONG-TERM UNEMPLOYED, 1982-2002²⁶



Source: ABS (2003), Labour Force Australia, Table 21, Cat No. 6291.40.001

However, Figure 15 shows that long-term unemployment is now sufficiently reduced to be approaching the brief lows recorded prior to the recession. Its current level is well below the average of the previous two decades. Despite the fact that there are many fewer unemployed people than there were in March 1996, the proportion of unemployed people who are long-term unemployed has also fallen, from 29.6 per cent to 23.1 per cent today.²⁷

The benefits of falling unemployment have been recorded in most locations

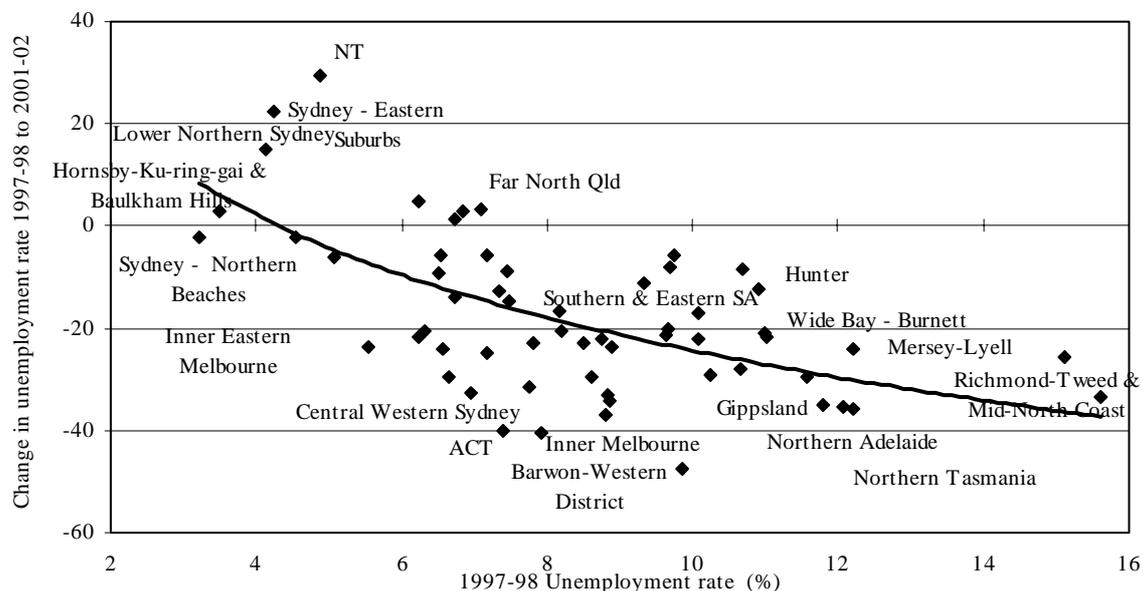
Another valuable characteristic of jobs growth in recent years has been that its benefits have been broadly based, both across industry sectors and across regions. Regional disparity in unemployment has fallen

markedly as a result both of growth in employment in local labour markets and also opportunities created elsewhere. While in 1997-98 there were 15 labour market areas (out of 59 regions for which ABS produce estimates) that had unemployment rates above 10 per cent. By 2001-02 this number had fallen to only two.

The pattern of these changes can be seen in Figure 16, which shows the percentage change in the unemployment rate of labour market areas between 1997-98 and 2001-02, charted against the same area's unemployment rate in 1997-98.

It shows, as a general relationship, that the locations with the highest unemployment rates in 1997-98 are also those areas that have had the largest falls in unemployment between 1997-98 and 2001-02. For example, in 1997-98, Gippsland and Northern Tasmania had unemployment rates of around 12 per cent. By 2001-02 the unemployment rate had fallen by more than a third. Additionally, the figure shows that rates have fallen in both urban and regional locations with high unemployment.

Figure 16: REGIONAL UNEMPLOYMENT TRENDS 1997-98 TO 2001-02



Source: Derived from ABS (2003), Labour Force Selected Summary Tables, Cat No. 6291.0.40.001, Table R1

These results run counter to much of the analysis of employment and unemployment trends in the 1980s and early 1990s that identified increasing concentration of unemployment in some regions. While there remain significant differences in the locational experiences of unemployment, many of these are a hangover of changes that became deeply entrenched in the earlier period, and, as noted, in recent years there has been a very important reduction in the extreme experiences between locations.

While the rate of joblessness amongst families has fallen, the overall impact of this has been offset by increasing numbers of sole parent families

Another important dimension of unemployment that has received significant attention in recent years has been the experience of children growing up in jobless families. In June 2002, ABS estimated that 17.9 per cent of families with children under the age of 15 years and 16.9 per cent of those with a dependent child aged less than 25 years had no employed adult.²⁸

While these rates were both below the peaks recorded in 1993, of 18.9 per cent and 18.4 per cent respectively, this reduction is relatively small compared to the trends in total unemployment. The reason for this in part relates to changes in the structure of households in Australia over the period and the increasing proportion of sole parent households. Hence, while the rate of joblessness has been falling for

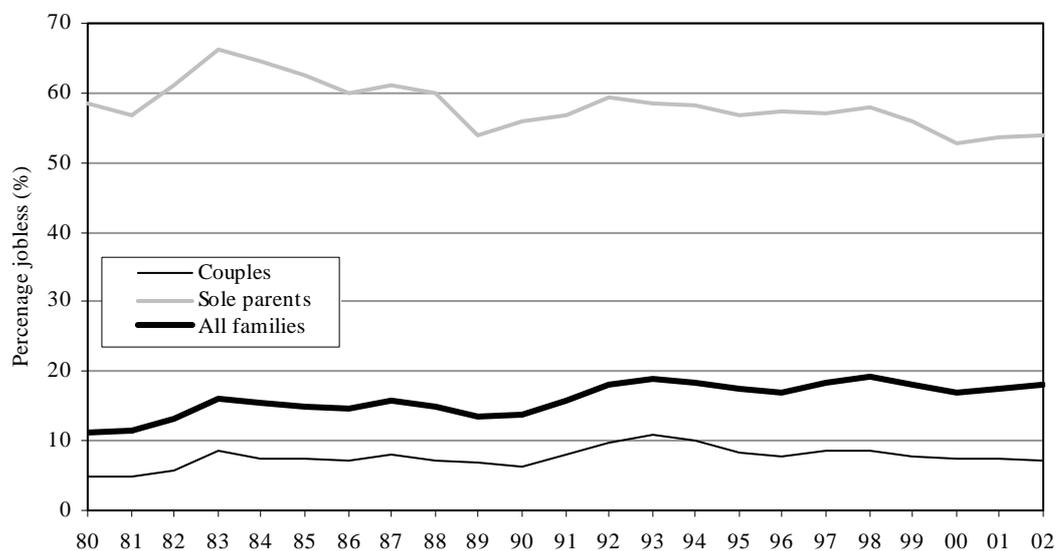
both sole parents and parents in couple families, as the proportion of families with children who are headed by a sole parent has increased, this has had a countervailing impact on the aggregate rates.

This compositional change in family types has been dramatic. The proportion of families with children under 15 and headed by a sole parent has increased from 12.2 per cent of families in 1980, to 23.0 per cent in 2002.

The decline in the rates of joblessness of both sole parents and partnered parents with dependent children aged less than 15 is illustrated in Figure 17:

- In the case of sole parents this has been a long-term trend that was temporarily disrupted by the recession at the beginning of the 1990s, but has since been restored. The rate of joblessness amongst sole parent families with children under 15 has dropped from a peak of 66.1 per cent in June 1983 to 53.8 per cent in June 2002.
- For couples, the rate in 2002 of 7.2 per cent is also well below the peak of 10.8 per cent recorded in 1993. However, the current rate remains above previous lows, showing the impact of both the recession and the upward shift in the rate apparent in the early 1980s.

Figure 17: FAMILIES WITH CHILDREN: JOBLESS RATE 1980 TO 2002



Source: ABS Labour Force Status and other Characteristics of families (1980 to 2000) Cat No. 6224.0, Table 4 and ABS Labour Force Selected Summary Tables (2001,2000) Cat No. 6291.0.40.001, Table FA3

A result of this trend is that some two-thirds of jobless families with children aged less than 15 are sole parent families, with joblessness in these families usually being because the parent is not in the labour force, rather than being unemployed, that is, seeking but unable to find a job. This is also the case in some couple families. Only in 23 per cent of jobless families did the parent, or at least one of the parents, report to ABS that they had actively looked for employment in the week prior to the survey (ABS 6291.0.40.001 companion data cubes 2002).

While Parenting Payment is structured to allow working parents to keep more of their earned income through the use of generous free areas and taper rates, there are no formal requirements for parents to look for work or participate in activities to improve their work prospects. Thus, for those parents who do not work, there is little encouragement for them to see themselves as part of the labour force. FaCS estimates that less than 10 per cent of parents in jobless families in receipt of income support are required to look for work.²⁹

At the same time, joblessness does not mean that all the families have had no recent contact with the labour market. In 1997–98, as shown in Table 6, 12 per cent of jobless families had one or more parents employed for at least four of the previous eight months and a further 16 per cent had at least one month in

which they were employed. The highest rate of constant joblessness was recorded amongst sole parents with children above the age of 15 years only.

Table 6: 1997-98 JOBLESS FAMILIES, RECENT PARENTAL EMPLOYMENT EXPERIENCE.

| Employment in past eight months | Couple with chld. under 15 | Couple with chld. 15 + only | Sole parent with chld. under 15 | Sole parent with chld. 15 + only | Total |
|---------------------------------|----------------------------|-----------------------------|---------------------------------|----------------------------------|---------|
| Employed 4 months or more | 28,899 | 6,507 | 16,559 | 767 | 52,732 |
| Employed 1-3 months | 25,605 | 3,732 | 40,609 | 3,477 | 73,423 |
| No employment | 89,768 | 29,058 | 186,856 | 23,821 | 329,503 |
| Total | 144,272 | 39,297 | 244,024 | 28,065 | 455,658 |
| | Distribution | | | | |
| Employed 4 months or more | 20.0% | 16.6% | 6.8% | 2.7% | 11.6% |
| Employed 1-3 months | 17.7% | 9.5% | 16.6% | 12.4% | 16.1% |
| No employment | 62.2% | 73.9% | 76.6% | 84.9% | 72.3% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: FaCS, derived from ABS 1997-98 SIHC Cat No. 6544.0.15.001.

In most analyses the concept of a jobless family refers just to the jobless state of parents and does not take account of the circumstances of dependent children. In 22,858 of these jobless income units the dependent child was currently employed. This occurred most frequently in couple families with dependent children over the age of 15.

Taking account of the labour force status of all members of the household, including non-dependent children living with their families, 8.8 per cent of all households containing a jobless family have a person who had been employed in each of the eight months prior to the survey. A further 14.3 per cent had a person employed for four or more months and an additional 19.3 per cent had a person employed at some point.

While in many cases the extent of this labour market engagement is relatively low, it suggests that the children raised in these households are not entirely isolated from the labour market. Failing to take account of this gives a misleading impression of the number of children growing up in households without a role model for employment.

Fewer than one in 20 teenagers is unemployed and looking for full-time work

Since March 1996³⁰, in line with longer term trends, the proportion of teenagers engaged in full-time education has increased, and the proportion in full-time employment has fallen. There has, though, been a substantial jump in the number of teenagers who are combining part-time employment with full-time study either at school or at a tertiary level.

Most importantly the number of young people who were not studying full-time but were seeking full-time employment fell by 28 per cent: from 81,900 in March 1996 to 58,900 in March 2002. Even when account is taken of those job seekers who are still undertaking study, in November 2002, only 60,300 teenagers were unemployed and looking for full-time work - just 4.4 per cent of the teenage population.

Earnings have grown strongly

In the long run, productivity growth in the economy must translate into increases in earnings and living standards. This long-run effect was very muted – even reversed – in the 1980s and early 1990s, despite periods of reasonable GDP growth. This has led to concerns that the benefits of economic reform and associated growth have not been shared and concern about the capacity of the economy to support real increases in living standards for all Australians.

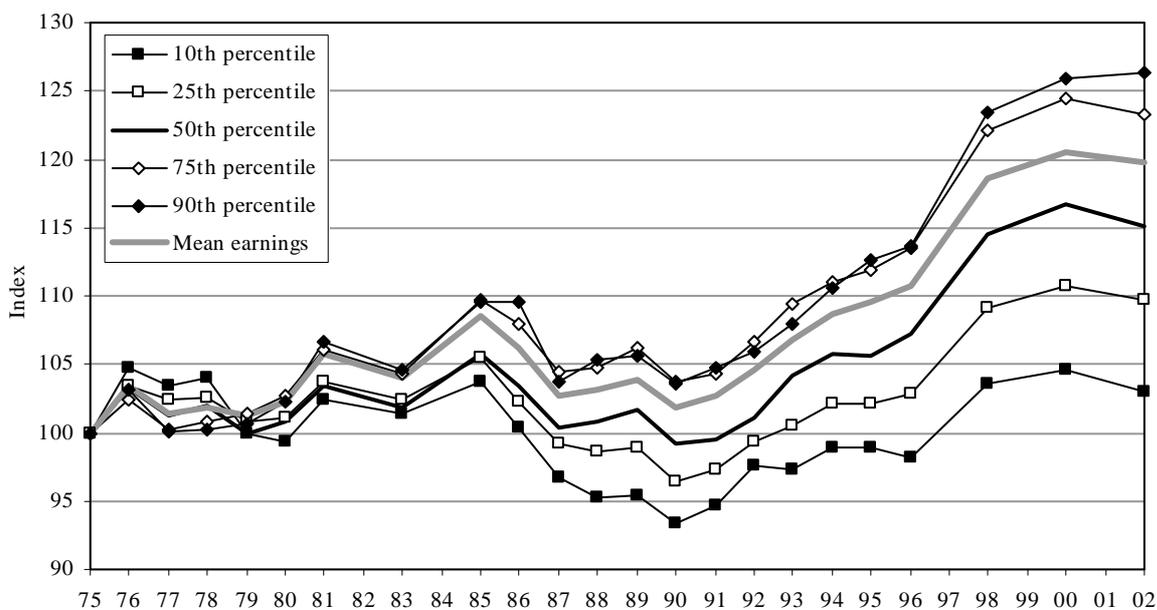
The cause of this concern is shown in Figure 18. As illustrated, real earnings for full-time employees at the 10th and the 25th percentiles showed only modest growth over the twenty years to the mid 1980s and then fell steeply until 1990.

It was not until after 1996 that real earnings for these groups finally reached the same point they were at in 1975; since then they, along with other groups, have shown rapid growth. (The fall shown on the chart for the period between 2000 and 2002 needs to be seen in the context of the introduction of the New Tax System. That is, because gross earnings are shown, and the full CPI effect has been used to deflate earnings, account has not been taken of the offsetting reductions in personal income tax, which more than balanced the cost impact of the GST.) The net effect of all these factors for families has been shown in Figure 11.

The chart also shows increasing dispersion in earnings since 1979, with the top percentiles recording stronger growth than the bottom ones. More recently, this increase had three phases:

- Between 1985 and 1990 earnings at the bottom fell almost continuously in real terms, while those at the top remained stable after an initial fall.
- Between 1990 and 1996 earnings at the bottom initially rose, but then remained stable, while those at the top consistently increased in real terms.
- Between 1996 and 2000 earnings grew at all points, though more rapidly at the top. In contrast to the other periods, this was the only phase where increasing dispersion was associated with real improvements for those at the bottom.

Figure 18: FULL-TIME EMPLOYEES, TRENDS IN REAL GROSS EARNINGS BY SELECTED PERCENTILES

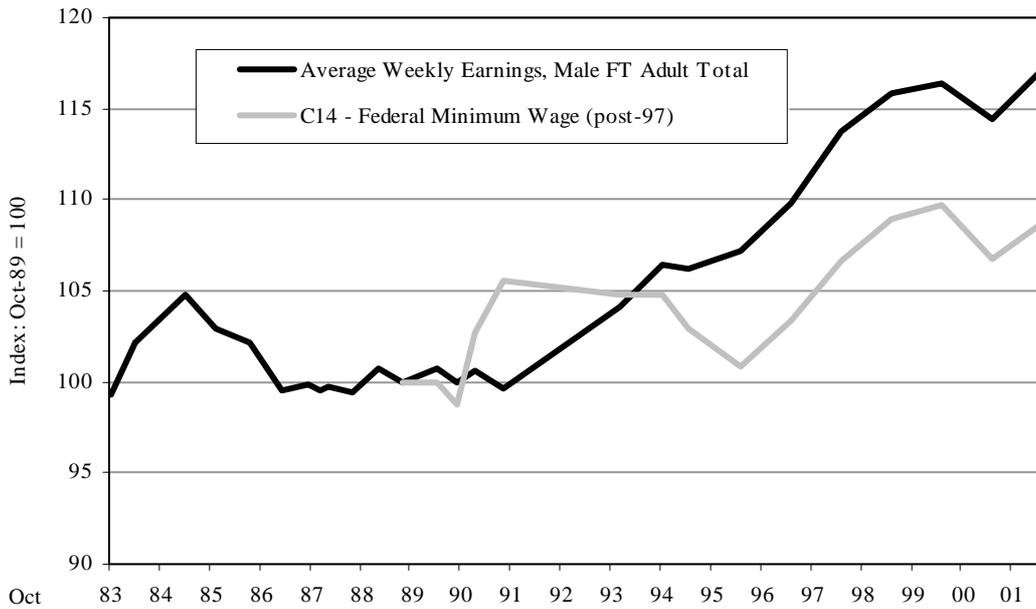


Source: Published and unpublished data from the ABS Survey of Employee Earnings and Hours (EEH Survey), ABS Cat no. 6306.0. The EEH Survey was not conducted in 1982, 1984, 1997 and 1999

A similar pattern can be seen in trends in average weekly earnings and in the minimum wage as shown in Figure 19. (Again, the slight dip seen in both of these series in 2001 is again the impact of the GST on CPI indexation, which was more than compensated by income tax cuts.) Notwithstanding this, the changes in the series since 1996 have been dramatic:

- AWE has increased in real terms by 10.5 per cent between 1996 and 2002, compared to an increase of 5.0 per cent over the entire previous decade and a fall of 5.8 per cent between 1984 and 1990.
- The minimum wage has increased by 6.0 per cent since 1996. While earlier, fully compatible data are not available for this series, as seen above in Figure 18, the earnings of low paid workers fell by 10.1 per cent between 1985 and 1990.

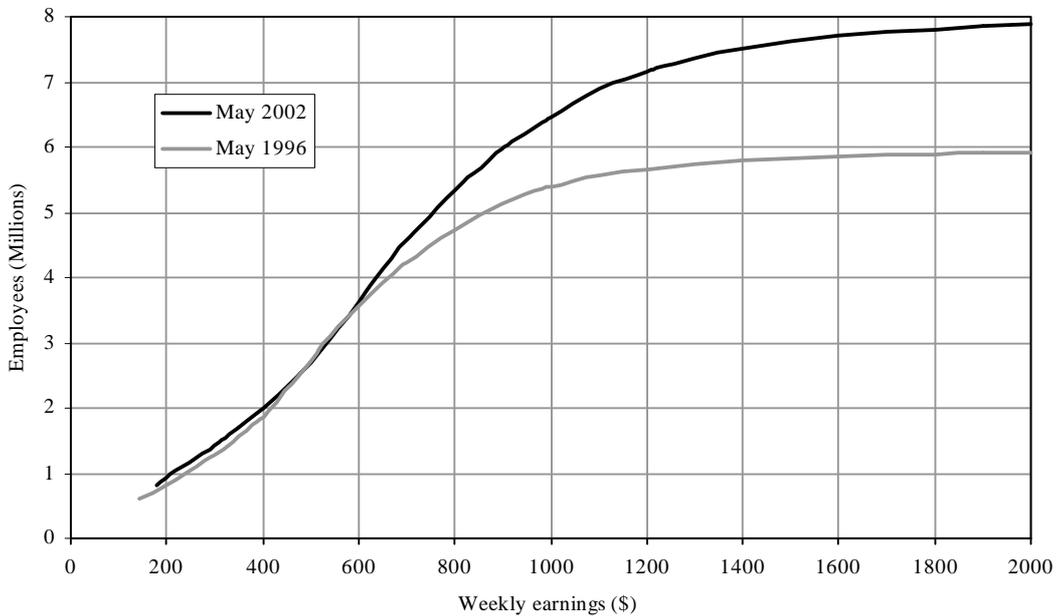
Figure 19: TRENDS IN MINIMUM WAGES AND AVERAGE WEEKLY EARNINGS



Source: ABS Employee earnings and hours, preliminary 6305.0, May 1996, table 1, ABS Employee earnings and hours, preliminary 6305.0, May 2002, Table 6.

Another area of concern has been that jobs growth has largely occurred only in low paid jobs (Borland, Gregory and Sheehan 2001). If this were the case, it would be expected that, in Figure 18, the earnings of the 25th percentile would have tracked down towards the 10th percentile. This is not the case.

Figure 20: ALL EMPLOYEES: CUMULATIVE EARNINGS DISTRIBUTIONS 1996 AND 2002



Source: ABS Employee Earnings And Hours, Preliminary 6305.0, May 1996, Table 1, ABS Employee Earnings And Hours, Preliminary 6305.0, May 2002, Table 6.

Figure 20 largely confirms this observation. This shows the cumulative distribution of employee earnings from all jobs, and hence takes account of both full and part-time earnings. The figure shows, for 1996 and 2002, the number of persons with total earnings (in 2002 prices) below points in the income range.

In this figure, a number of trends can be seen. At the bottom of the distribution there has been a little growth up to around the \$400 point. This has been followed by a contraction in the net gain around the

\$600 point. However the clearest feature is how, overwhelmingly, growth was recorded in the \$700 to \$1,400 range. While interpretation of these data is complex in that the gains at particular points can reflect both the creation of additional employment at these salaries and the impact of increasing earnings for existing employees, as well as the creation of part-time jobs that may be at many different points of the distribution, what is clear is that the biggest additional employment growth has been at the upper-to-middle end of the earning scale.

While these data are for a later time period than that used by Boland Sheehan and Gregory, there is a second, and in all probability, more significant reason for the difference in results. This arises because their analysis distorts real earnings growth by using Average Full-Time Earnings to deflate wages, rather than the CPI. (Boland Sheehan and Gregory 2001, p13) During a period of real and substantial earnings growth, as shown in Figure 19, this approach severely distorts the results of the analysis and the points at which growth has occurred. This means that claims that these data demonstrate movements in the earnings distribution in real terms are seriously flawed.

The trends to increased earnings dispersion, as seen above, along with the mitigating impact of taxes and transfers, have been found in most recent studies in Australia. This research, along with their own, has been summarised by Johnson and Wilkins (2002):

“The results reported in Section 5 confirm the findings of other recent studies of trends in inequality in Australia. At an aggregate level, inequality of private income increased, particularly during the eighties and less so during the nineties. The effects on disposable income inequality of the increases at the private level were, however, significantly offset by the effects of transfer payments and income taxation. As a consequence, the increase in inequality of disposable income was much more muted than it might have been but for government intervention.”

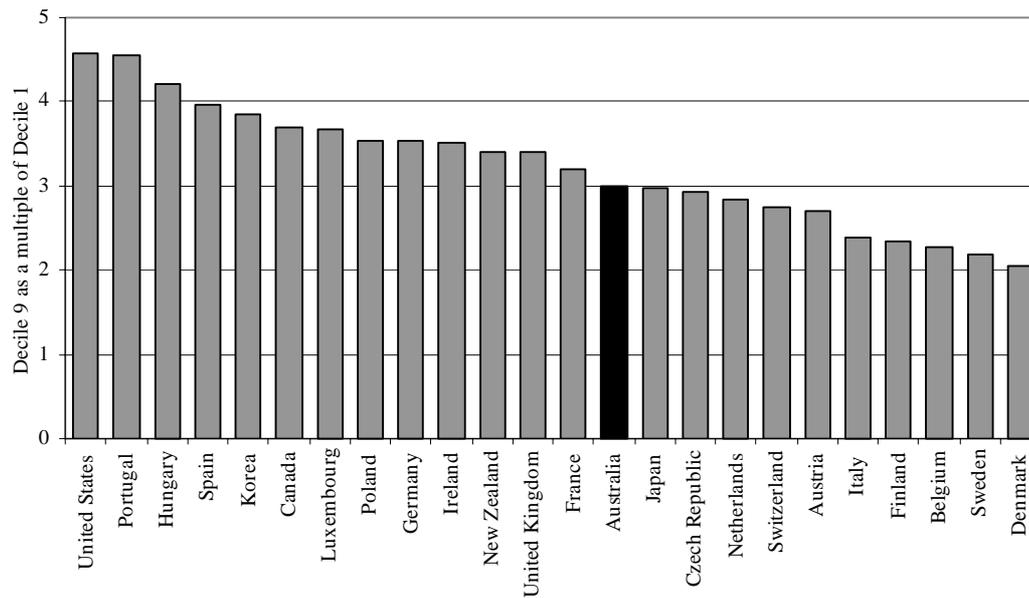
More detailed analysis in this paper focused on the decomposition of the factors behind the increased dispersion in private incomes (earnings and unearned incomes). They found that around

“half the increase in income inequality is explained by changes to observable characteristics, comprising changes in income unit composition, changes in the distribution of the number and ages of dependent children across income units, changes in demographic factors and changes in the distribution of labour force status”. And that “Much of the increase in inequality not attributable to characteristics - that due to changes in the ‘prices’ of characteristics - is likely to reflect changes in wage rates.”

Internationally, Australian minimum wages are high and wage inequality low

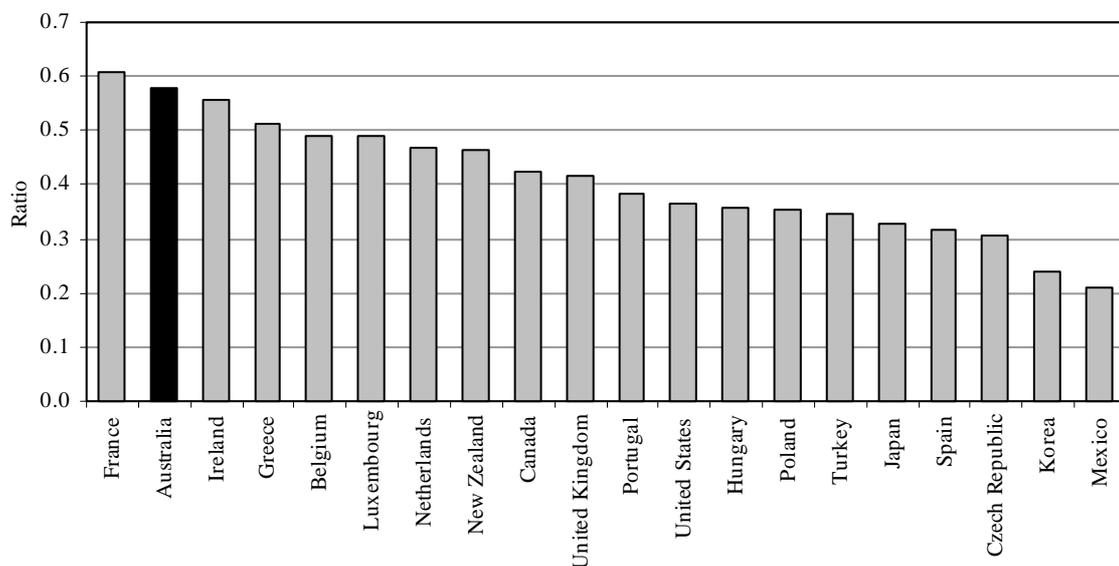
While earnings inequality has grown since the mid-1980s, as shown in Figure 18, international comparisons clearly indicate, on a number of measures, that wage inequality in Australia is low compared to most other OECD countries.³¹ Figure 21 shows that, using a commonly used measure of wage dispersion, the ratio of the earnings of the 9th decile to the earnings of the 1st decile, earnings rates are considerably less dispersed in Australia than in the major European economies, or in North America. The ratio of the minimum wage to median earnings is another measure that looks at dispersion and considers how low-income earners rank against the middle. Figure 22 shows that the ratio in Australia is amongst the highest in the OECD. Indeed, of those OECD nations with a nationally fixed minimum wage, only France has it set higher than Australia’s relative to typical (median) earnings. The two countries with economies most broadly similar in structure to Australia’s – New Zealand and Canada – both have their minimum wages at about 46 per cent of median earnings, compared to Australia’s 58 per cent.

Figure 21: MAIN OECD COUNTRIES: EARNINGS INEQUALITY, RATIO OF 9TH DECILE EARNINGS TO 1ST DECILE EARNINGS FOR ALL FULL-TIME WORKERS, LATE 1990s



Source: Keese, M and A. Puymoyen (2001, forthcoming)

Figure 22: MAIN OECD COUNTRIES: MINIMUM WAGE AS A PROPORTION OF MEDIAN WEEKLY FULL-TIME EARNINGS, LATE 1990s



Source: Keese, M and A. Puymoyen (2001, forthcoming)

This suggests not just that Australian wages have a relatively low degree of dispersion, but also that the apparent increase in inequality of earnings in Australia has been much less dramatic than that of other countries facing the challenges of globalisation, or that the trends in Australia represent a shift from a starting point of highly compressed relativities. The Safety Net Review of Wages conducted by the Australian Industrial Relations Commission ensures that the level of minimum wages is reviewed on a regular basis and that adjustments are made to meet community standards.

The Australian Industrial Relations Commission, in its May 2002 decision, established the federal minimum wage for full-time adult employees at \$431.40 per week (AIRC 2002).

Total household incomes have increased

The combined effects of increasing levels of employment and increased earnings by employed persons, together with changes in income support, have been reflected in increased levels of household income.

Table 7: NET DISPOSABLE EQUIVALISED INCOME³²: QUINTILE DISTRIBUTION 1990 TO 1997-98
(Data greyed as it is subject to revision by ABS)

| | | Net Equivalised Income Quintiles | | | | | Total | |
|-----------------------------------|-------------|----------------------------------|-----------------------|---------------------|----------------------|-------------------------|----------------------|--|
| | | Quintile 1 (Lowest) | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 (Highest) | | |
| Quintile Cut-offs \$pw | 1990 | 436 | 598 | 792 | 1,064 | - | - | |
| | 1994-95 | 431 | 610 | 823 | 1,110 | - | - | |
| | 1995-96 | 427 | 599 | 818 | 1,105 | - | - | |
| | 1996-97 | 448 | 627 | 834 | 1,131 | - | - | |
| | 1997-98 | 452 | 635 | 862 | 1,162 | - | - | |
| Average Income \$pw | 1990 | 320 | 514 | 692 | 919 | 1,438 | 776 | |
| | 1994-95 | 326 | 519 | 716 | 956 | 1,528 | 809 | |
| | 1995-96 | 325 | 513 | 705 | 954 | 1,494 | 798 | |
| | 1996-97 | 348 | 534 | 728 | 969 | 1,526 | 821 | |
| | 1997-98 | 343 | 542 | 746 | 1,004 | 1,613 | 849 | |
| Income Shares | 1990 | 8.3% | 13.2% | 17.8% | 23.7% | 37.0% | 100.0% | |
| | 1994-95 | 8.1% | 12.8% | 17.7% | 23.6% | 37.8% | 100.0% | |
| | 1995-96 | 8.2% | 12.9% | 17.7% | 23.9% | 37.4% | 100.0% | |
| | 1996-97 | 8.5% | 13.0% | 17.7% | 23.6% | 37.2% | 100.0% | |
| | 1997-98 | 8.1% | 12.8% | 17.6% | 23.6% | 38.0% | 100.0% | |
| Change in Income \$pw | 1990-94/95 | 5 | 5 | 24 | 37 | 91 | 32 | |
| | 94/95-95/96 | 0 | -6 | -12 | -2 | -35 | -11 | |
| | 95/96-96/97 | 22 | 21 | 23 | 16 | 33 | 23 | |
| | 96/97-97/98 | -5 | 7 | 19 | 34 | 86 | 28 | |
| | 1990-97/98 | 22 | 28 | 54 | 85 | 175 | 72 | |
| Percentage Change in Income | 1990-94/95 | 1.6% | 0.9% | 3.5% | 4.0% | 6.3% | 4.2% | |
| | 94/95-95/96 | -0.1% | -1.1% | -1.6% | -0.2% | -2.3% | -1.4% | |
| | 95/96-96/97 | 6.9% | 4.2% | 3.3% | 1.6% | 2.2% | 2.9% | |
| | 96/97-97/98 | -1.4% | 1.4% | 2.6% | 3.6% | 5.7% | 3.4% | |
| | 1990-97/98 | 6.9% | 5.4% | 7.8% | 9.2% | 12.2% | 9.3% | |
| Income Ratios | | p10/p50 | p50/p90 | p10/p90 | p20/p80 | | | |
| | 1990 | 0.514 | 0.526 | 0.271 | 0.409 | | | |
| | 1994-95 | 0.510 | 0.519 | 0.265 | 0.388 | | | |
| | 1995-96 | 0.516 | 0.517 | 0.267 | 0.386 | | | |
| | 1996-97 | 0.521 | 0.528 | 0.275 | 0.396 | | | |
| 1997-98 | 0.508 | 0.522 | 0.265 | 0.389 | | | | |
| Inequality Measures | | Gini | Atkinson $\alpha=0.5$ | Atkinson $\alpha=1$ | Entropy $\epsilon=0$ | Entropy $\epsilon=1$ | Entropy $\epsilon=2$ | |
| | 1990 | 0.290 | 0.073 | 0.186 | 0.178 | 0.144 | 0.387 | |
| | 1994-95 | 0.301 | 0.078 | 0.201 | 0.189 | 0.156 | 0.441 | |
| | 1995-96 | 0.297 | 0.075 | 0.179 | 0.175 | 0.150 | 0.417 | |
| | 1996-97 | 0.291 | 0.071 | 0.172 | 0.166 | 0.142 | 0.387 | |
| 1997-98 | 0.303 | 0.079 | 0.199 | 0.189 | 0.158 | 0.449 | | |

Source: Derived from ABS SIHC, and IDS CURF, Cat No. 6544.0.30.001, various years as indicated

Table 7 shows the pattern of household income distribution (net equivalised) from the ABS Income Distribution Survey of 1990 and the 1994-95 to 1997-98 Surveys of Income and Housing Costs (SIHC). The data are shown grouped into income quintiles – with each quintile containing an equal number of people (20 per cent of the population) ranked by their household incomes. Although ABS also conducted a Survey of Income and Housing Costs in 1999-2000, and has published some initial results, it has not released the 1999-2000 data for public analysis.

In considering these results, it must be noted, as discussed in more detail in Chapter 5, that these estimates are known to have some errors and are subject to revision by ABS as they seek to address issues, including an understatement of income support receipt in the recent SIHCs. Some caution also needs to be exercised in comparing data from the 1990 Income Distribution Survey (IDS) with subsequent SIHCs due to changes in methodology.

Given these limitations, perhaps the only strong conclusion which can be drawn from the analysis is that overall household incomes have grown, and in broad terms this growth has been shared across the income distribution without any major shifts in the pattern of income distribution.

The growth in average household disposable income over the entire period of 9.3 per cent can be broken down into two periods. In the five years between 1990 and 1995-96 incomes rose, by just over half a percentage point per annum (compounding) – to give a growth of 2.7 per cent; in the period between 1995-96 and 1997-98 the growth rate increased to 3.2 per cent per annum, giving total growth of 6.4 per cent.

The overall pattern of stability in the income distribution is particularly marked in the period between 1994-95 and 1997-98. With the exception of the 20 basis point increase in the percentage of income received by the top quintile, there has been no appreciable change in any of the distributional parameters, nor in the summary measures of inequality. Even with respect to the increase in the share of income of the top quintile, not only is the change quite small but it is not reflected in other parameters such as the income ratios, where for example there has been a marginal rise in the ratio of income received by the person at the 50th percentile compared to the person at the 90th. This suggests that any change was driven by movements at the very top of the distribution only.

In contrast, looking at the earlier period between 1990 and 1994-95 almost all of the parameters shown in the table suggest some increase in income inequality. This is a trend which is not inconsistent with movements in earnings; however interpretation is again difficult owing to issues of data comparability³³.

This type of analysis of trends is based upon comparisons of what may be quite different cross-sections of the community at different points in time and it is not possible to derive from it the actual experiences of individual households. To be able to do this, longitudinal data which track the experience of particular households are required. That is, the table simply provides a comparison between the outcomes of households which are in a particular quintile at one point in time, with those households which were in the equivalent quintile at a previous point in time, not what actually happened to these households.

This point is important as international analysis suggests that there is a high degree of income mobility – in the European Community only 30 per cent of the population was estimated to be in the same income decile in 1997 as they were in 1994 (Ras, Pommer and Schut 1992). More detailed analysis in Germany for example has highlighted particularly high levels of mobility at the bottom of the income distribution (the lowest 10 per cent) and to a lesser degree amongst the richest 5 per cent (Van Kerm 2002). Such a finding has particular implications for income analysis which so often contrasts the experience of the poorest and richest groups as a means of identifying inequality; it is difficult to see what strength of interpretation can be placed on results which are largely transitory states for households whose more usual levels of income are elsewhere in the distribution.

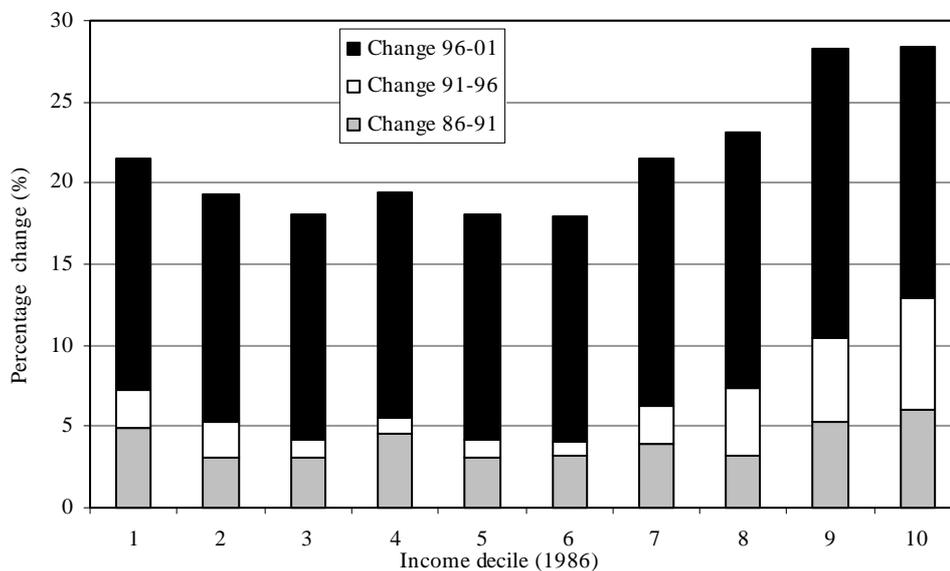
Currently, more limited data are available for Australia, although the Household Income and Labour Dynamics (HILDA) survey will redress this in coming years. One study that has considered this question though is the National Life Course project. While this has a more limited focus than HILDA with a more limited sample drawn only from the 18 to 54 age group in 1996-97, its results still provide an important insight into the experience of those of working-age. The researchers report that of those individuals whose income would have placed them in the lowest quintile (20 per cent grouping) of the overall income distribution in 1996-97, only 29.3 per cent were still in that quintile in 1999-2000. Around 16 per cent had each moved up one, two or three quintiles respectively, and almost a quarter (22.6 per cent) had jumped from the bottom to the top quintile. These changes were driven both by changes in life course events – such as partnering, young adults leaving home, children going off to school, etc – as well as changes in employment and earnings (Breusch and Mitchell 2003).

Income gains have been distributed broadly

Another area of concern in some studies in the early 1990s, for example Gregory and Hunter (1995), has been the extent to which income has become polarised between locations. This is considered below in using the average incomes of households, as reported in censuses, grouped at the Statistical Local Area level.³⁴

Figure 23 shows the real growth rate of equivalised gross income at the statistical local area over the intervals between the last four censuses. While the use of gross income and the pooling of this within locations introduce some qualifications into this analysis, more detailed disaggregations indicate that using this degree of aggregation is quite robust. The figure shows that, in the 15 years to 2001, incomes of areas grouped into the decile of income they were in 1986 have grown in each set of locations. While the rate of growth over the whole period is highest in the top 20 per cent of locations, this is largely attributable to the strength of the growth recorded between 1991 and 1996, with the rates of growth over the past 5 years being much more even.

Figure 23: AUSTRALIA, STATISTICAL LOCAL AREAS BY 1986 INCOME DECILE: INCOME GROWTH 1986-2001

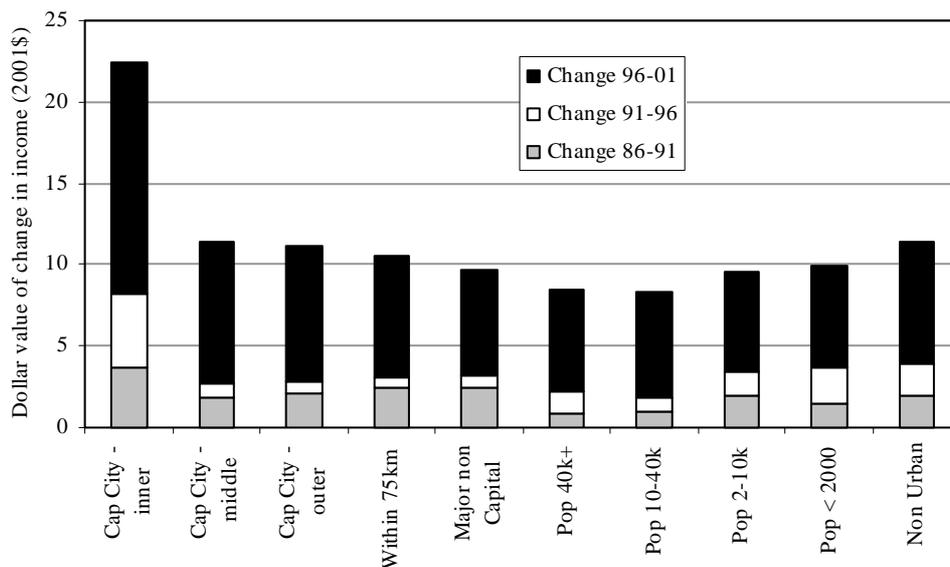


Source: Derived from published (CDATA) and unpublished ABS Census Data

This chart thus clearly shows that, not only has income growth been strongest in the past five years, but also that it has benefited both high and low income areas, with the largest increase in locational income inequality occurring between 1991 and 1996, where gains were concentrated at the top. When types of location are considered, the level of income growth, while again varying across time periods, was also remarkably even, with one exception. This is illustrated in Figure 24.

The one exception was the inner ring of capital cities; here incomes grew by double the amount of other locations. It is probable, however, that this change, which has been particularly marked since 1991, reflects not only growing incomes of those already living in these areas, but also the extent to which higher income earners have moved back into the increasing stock of housing in CBDs and the inner ring of suburbs of Australia's capitals.

Figure 24: AUSTRALIA STATISTICAL LOCAL AREAS BY URBAN FORM: INCOME GROWTH 1986-2001



Source: Derived from published (CDATA) and unpublished ABS Census Data

Perceptions of inequality and well-being

An important facet of economic and social trends is not just the outcomes but also peoples' perceptions of their well-being and relative outcomes. This type of analysis can play an important role in explaining why there appear to be differences between actual changes in income levels and distribution, as discussed, and the way in which the community feels their incomes have moved and popular perceptions about trends.

A recent study by Hamilton reports that amongst the 20 per cent of households with the *highest* income, 46 per cent of respondents agreed with the statement that "You can't afford to buy everything you really need" and 26 per cent agreed that "You spend nearly all of your money on the basic necessities of life". His discussion of these results suggests that this result is driven by expectations and he concentrates much analysis on the way in which perceptions develop, or are encouraged. He suggests that there have been a range of factors at play which have led to a perception that:

"the imagined financial difficulties of the middle classes are the result of unrelenting hard times rather than inflated expectations" (Hamilton 2002, page *x*).

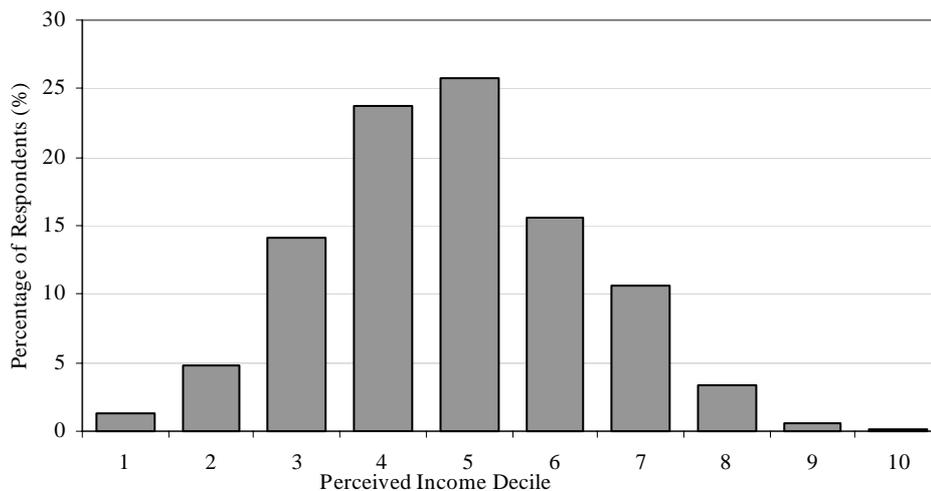
In contrast to these results, in the first wave of the HILDA survey conducted in 2000, households were asked how they ranked themselves on a scale from very poor to very comfortable. Only 4 per cent of households considered that they were either 'poor' or 'very poor', 64 per cent felt they were 'very comfortable' or 'reasonably comfortable' and 30 per cent reported they were 'just getting along'.

Another interesting insight into perceptions of income distribution comes from analysis undertaken by the Social Policy Research Centre in 1999 (Saunders 1999). Part of the research asked respondents to identify where in the income distribution they felt they were. The results of this are shown below.

Although the survey sample was relatively representative, with an income distribution similar to the population as a whole, people's perceptions of where they stood in the distribution were significantly at odds with the reality of their place.

In summary, rather than an equal distribution across the 10 deciles, the results are strongly oriented towards the fourth and fifth deciles, where some 24 and 26 per cent of households respectively place themselves. In contrast relatively few considered themselves to have very low incomes, with fewer than 2 per cent placing themselves in the bottom decile and under 5 per cent considering themselves in the second lowest decile.

Figure 25: PERCEPTIONS OF HOUSEHOLD INCOME DISTRIBUTION



Source: Saunders, P 1999, The Perception of Equality, SPRC Newsletter No 7 December 1999 SPRC Sydney.

While people rarely regarded themselves as being poor, they were even more resistant to the idea that they might be rich, perhaps reflecting the interpretation of Hamilton. Only 0.7 per cent considered that they were in the top quintile (20 per cent) of the income distribution.

These data also provide some useful insights into perceptions of what constitutes poverty. As noted in the HILDA survey, for example, only 4 per cent assess themselves as being 'poor' or 'very poor'. The result in Figure 25 indicates that only 2 per cent think they are at the bottom of the income distribution – where it would be expected that they would place themselves if they thought they were the poorest in our community, and a further 5 per cent only consider that they are a little above this.

Summary

Strong economic growth in the second half of the 1990s in Australia has led to significant increases in employment and earnings. Unlike earlier growth periods, these increases are quite broadly based across regions and industries.

This includes strong full-time employment growth and gains in employment in many industry sectors including manufacturing. The associated falls in unemployment have had a wide geographic impact, especially in areas that previously had very high levels of unemployment.

One group which continues to have high levels of joblessness, despite falls in the rates for its components, are families with children. Two-thirds of these families are headed by a sole parent. In most cases family joblessness is associated with persons not being in the labour market, rather than as a result of failed current job search.

In addition, there has been strong earnings growth, at the top, middle and bottom of the earnings distribution. As the strength of growth in higher incomes has led to some increased dispersion of earnings, earlier trends to greater disparity have continued. The pattern of dispersion has varied over time. Most recently, it is based upon strong growth in earnings at the bottom and even stronger growth at the top. By contrast, in earlier periods, increased dispersion was driven by falls at the bottom. Internationally, however, Australian earnings show quite low levels of inequality.

Employment and earnings growth have impacted on the distribution of household income; however, issues of data quality limit the amount of interpretation that can be undertaken. Regional analysis indicates that the growth in incomes has been widespread and has benefited poorer as well as richer households.

Part III: Poverty and Income Distribution Measurement

Chapter 5 Issues in the measurement of poverty and inequality

Due to the significant limitations of income poverty measures and the limited contribution these can make to social policy and program development, these measures have had little application in government policy analysis in Australia. As, however, they have had considerable currency in some academic and other analysis, the Department of Family and Community Services has had significant experience in the use of these tools and in understanding the nature of the results they produce.

This section seeks to provide the Committee with a brief summary of some of the technical issues that arise in using measures of poverty and to identify some of the areas of contemporary debate.

5. Issues in the measurement of poverty and inequality

This section provides a brief overview of questions concerning the measurement of poverty and inequality. These issues have been the subject of extensive consideration and controversy over a long period, a debate that was recently summarised by Piachaud and Sutherland (2000) as “The definition of poverty has been subject to extensive, occasionally useful, discussion.” That this is the case is not surprising. In effect the measurement of poverty and inequality seeks to quantify a set of values, and value judgements, of a society.

In approaching this, the focus is on contemporary issues of debate and the application of analysis to current Australian data sources. To assist understanding of the context of some of these debates, the section commences with a brief summary of Australian government involvement.

A listing of some of the inequality and poverty studies undertaken in Australia is at Attachment A.

Australian Governments have been involved in many initiatives seeking to measure social outcomes including poverty and inequality

The first significant study of poverty in Australia was undertaken by Professor Ronald Henderson in Melbourne in 1966 (Henderson, Harcourt and Harper 1970). In this he derived a poverty line and used this in a study of Melbourne households. He was subsequently appointed, in 1972, by Prime Minister William McMahon to undertake an inquiry into poverty in Australia. The main results of his work including the application of his poverty line to national data were published in the First Main Report of the Commission into Poverty in 1975 (Henderson 1975). In the report he estimated that, using annual income, the before-housing-costs poverty rate of income units was 10.2 per cent. As the average size of poor income units was smaller than others, this translated into an 8.2 per cent poverty rate for persons. His report made extensive recommendations both for immediate changes to the income support system and for longer term changes, including the introduction of a guaranteed minimum income scheme.

In 1980, reflecting some of the critical debate about the Henderson Poverty Line, the then Minister for Social Security, Senator Margaret Guilfoyle, asked the Social Welfare Policy Secretariat (SWPS):

“in consultation with my own Department, to examine the whole issue of alternative approaches to measure a poverty line that would be relative [sic] to Australia in the 1980s.” (Senate Hansard 1980 vol s.48, pp 408-409)

While the SWPS, in association with the ABS and the Department of Social Security (DSS), undertook extensive work in response to this request, in its final report it concluded, “We have been less than successful in achieving this objective.” One of the reasons cited for this was the diversity of opinion as to what constituted poverty, and the degree to which measurement required arbitrary decisions. It noted:

“One problem is that different people seem to mean different things by poverty; and we doubt whether there is widespread agreement.” (Social Welfare Policy Secretariat 1981)

A further Commonwealth exercise that considered some closely related subjects was a series of projects conducted as part of a process to consider ‘standards of adequacy’ for social security payments. This process was announced by the then Minister for Social Security, Peter Baldwin, in November 1993. While it was not intended that the framework would seek to derive a poverty line, the Department of Social Security noted:

“Whilst it is clear that poverty is only one of the factors legitimately considered by governments in establishing income support levels, and although it may be possible to maintain a theoretical distinction between adequacy benchmarks and poverty lines, it was

the view of the Advisory Group that, should the current Government nominate an explicit income level as an 'adequacy benchmark', the income level would be perceived as, de facto, an official poverty line."(Department of Social Security 1995)

The two major projects completed in this process were the development of Budget Standards by the Social Policy Research Centre (SPRC), and the development of deprivation measures by Professor Peter Travers (Travers and Robertson 1996).

The first of these produced two sets of household budgets, one of which was deemed to be 'low cost' and the other to be 'modest but adequate'. While these results were published in detail in 1998 they have had little use in policy analysis or research. There are a number of reasons for this. At a conceptual level the extent of detail required for the budgets generated what might be considered as stereotypical households that did not resonate with the range of quite diverse living arrangements of Australians. In addition the budgets were very sensitive to assumptions about asset lifetimes and the resultant estimates appeared to be high by comparison with other benchmarks. This was true of both the 'low cost' budget, which generated budgets of up to 150 per cent of relevant income support payments, and the 'modest but adequate' budget, which suggested, for a number of household types, that above average incomes were required to live even modestly.

The second study, which included the publication of a report on relative deprivation amongst income support recipients, identified a set of questions that were seen as being particularly effective in identifying deprivation (Travers and Robertson 1996). These, after further consideration by a joint ABS and DSS research project into living standards, led to the inclusion of a series of financial stress questions in the 1998-99 ABS Household Expenditure Survey, and in a number of subsequent current surveys. Results of the analysis of the HES results are discussed further later in this chapter.

In 1995 the Commonwealth commissioned research into trends in income distribution by the Melbourne Institute of Applied Economic and Social Research, and the National Institute of Economic and Industry Research (IAESR 1995). In terms similar to those expressed in much other research, the authors concluded:

"The primary question asked in this study was: did inequality of income increase between 1982 and 1994? This deceptively simple question cannot have a simple answer, since there are so many concepts of inequality. Income can be defined in different ways; for each definition different measures of inequality can be used, and different data sources provide conflicting evidence. Even when a consistent database is constructed, the concepts remain in all their multiplicity. An unequivocal answer could only be given if, perchance, the trends measured according to all concepts were the same."³⁵

Although social outcomes depend upon much more than income, poverty is most frequently measured simply in terms of income

The most common methods of poverty measurement are those using self-reported current income as a measure of well-being and welfare. This approach adopts an income poverty line and considers whether households or individuals have an income above or below that line.

While there is a general appreciation that this approach has a large number of limitations, and that it represents only at best an indirect assessment of household welfare, it is an approach that is relatively easy to implement, especially with widespread availability of income data from household surveys. This section considers in more detail what these methods involve and what questions arise from their use.

The obvious and most important question is: what is the actual relationship between this reported income, and the states and concepts of poverty and welfare that these studies are concerned with? This question is, however, rarely asked, and, at best, only partially responded to in most income poverty analysis.

There has been much debate about whether poverty should simply reflect relative living standards, or whether it also has an absolute component

The focus of much debate on poverty is whether it should be conceived of as an absolute or relative concept. Sen, whose starting point is: “There is, I argue, an irreducible absolutist core in the concept of poverty”, has sought to link the two concepts:

“At the risk of oversimplification, I would like to say that poverty is an absolute notion in the space of capabilities, but very often it will take a relative form in the space of commodities or characteristics.” (Sen 1983)

The acknowledgement of the relative nature of poverty is not new – as can be seen by Adam Smith’s famous reference to a linen shirt:

“By necessaries I understand not only the commodities which are indispensably necessary for the support of life, but whatever custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty...” (Smith 1776)

Given this degree of unanimity, why does this debate continue? The answer is threefold:

- As discussed later, a purely relative concept of poverty presents a moving target for policies and programs and generates measures which can serve as much to obscure the impact of social and economic changes as to report on their consequences. As has been noted by many researchers, under a relative poverty line, if everybody’s income doubled overnight, poverty would remain unchanged.
- Community values, norms and expectations do not move along a simple or a single trajectory. That is, what members of the community may view at any given time as being necessary for an adequate standard of living does not just reflect their current standard of living, but also their past experiences, and their expectations for the future.
- If the concept of poverty is anything other than a simple description of income distribution, it also needs to reflect circumstances of need and deprivation which are or should be of concern to the community and governments, as well as just a household having a relatively low income.

Taken together, the implication of these issues is that, notwithstanding the strong grounds for conceptualising poverty at a broad level and over some timescale as being relative, absolute reference points may be of equal importance for much analysis and social policy and program purposes. Similarly it may be expected that community support for changing benchmarks may at times lag behind, or perhaps under some circumstances – such as increasing expectations - move ahead of, changes in actual living standards.

The questions of how poverty lines should be updated, and how short-term changes in poverty should be considered, are discussed below in respect of specific poverty lines.

A poverty line can be derived in many different ways

There are a number of ways in which poverty lines can be derived. The most common broad approaches are expert or budget derived lines and those derived from some statistical characteristic of the income distribution.

... relying upon expert opinion, or constructing ideal household budgets

These take the form of an estimate of the amount of income households require to have an ‘adequate’ lifestyle, with those with incomes below this level being considered to be in poverty. This estimate can be

based upon the costing up of the detailed household budget needed to achieve this standard, or can be based upon a judgement that a certain level of income is necessary. In this latter case this may simply be a single ‘expert’ view, or result from surveys of household incomes and households’ perceptions of the adequacy of these, or simply surveys of the perceptions of people as to what an adequate income is. This last is often called a consensual poverty line.

Expert and budget lines were the main form of poverty line used in most early studies, with both of the US official poverty lines being derived from this type of approach.³⁶ The Henderson Poverty Line (HPL) can also be considered as part of this class of measures.

“For our survey of income and needs in Melbourne in 1966, we have accepted as a state of poverty the situation of a man with a wife (not working) and two children whose total weekly income at that time was less than the basic wage and child endowment. ... This is a definition of poverty so austere as, we believe, to make it unchallengeable. No one can seriously argue that those we define as being poor are not so.”(Henderson, Harcourt and Harper 1970, p1).

In this formulation Henderson *et al* not only call upon their own judgement, but also cite the historic basis of the minimum wage. That is, Justice Higgins’ statement that it was to meet the “normal needs of an average employee regarded as a human being living in a civilised community”. As pointed out though by Stanton (1980), the Conciliation and Arbitration Commission had moved substantially away from reliance upon this standard in its setting of the minimum wage by 1966 when Henderson chose to base his definition on the basic wage.

The second part of the HPL is the equivalence scales, used to adjust the line for different families. As will be detailed later, these were separately estimated, based upon the household budget approach. Household budgets were also used, as noted above, in the work undertaken by the Social Policy Research Centre (SPRC) on the adequacy of payments, although this was not an explicit attempt to establish a poverty line.

Although these budget-based approaches have significant intuitive appeal, in that they appear to provide a clear picture of the income a household needs, in practice they present a number of problems. The first is seeking to specify precisely what needs to be consumed by a household to achieve an adequate level of living. This exercise is particularly problematic taking into account a wide set of different preferences and behaviours across the community and the very different trade-offs different households make. Secondly, as for example seen in the SPRC work, they are very sensitive to estimates of the costs and lifecycles of capital items, as well as other components such as housing, heating and transport which can vary significantly between locations. The third, as discussed below, are the problems of updating such budgets. These are conceptual as well as being related to cost and timing.

... considering that households with low incomes relative to others in the community live in poverty

These are the most commonly used lines in the analysis of income poverty in advanced market economies and can be considered to be purely relative in their conception, as well as arbitrary in their derivation. These measures set the poverty line at some fraction of a statistically derived reference point from the distribution of incomes in the country. Thus they take the form of measures such as incomes below half the mean (average) income, or median income (that point where half earn more and half earn less). There are many combinations of the statistical reference point (mean or median) and the percentage level of these that are deemed to be poverty. The most frequently used include:

- **50 per cent of median income** – this is the most frequently used in international studies – such as those undertaken by the OECD and by researchers using the Luxembourg Income Study. It is also the measure that was recommended by the Economic Policy Committee to ECOFIN of the European Community (Economic Policy Committee 2000).

- **60 per cent of median income** – this benchmark has been used by Eurostat, the European statistical agency, as its main indicator (Eurostat 2000), and has been adopted by the Social Protection Committee of the EU as the first of its primary indicators of social exclusion.
- **50 per cent of mean income** - this is mainly used in the United Kingdom where there has been a long tradition of publishing data on households with below half mean income. This line was also that which The Smith Family asked NATSEM to use as its main indicator in their reports *Financial Disadvantage in Australia* (Harding and Szukalska 1999; Harding, Lloyd and Greenwell 2001).

In many studies, even if one measure is preferred, results are given for a large number of different lines. For example, the British Households Below Average Income (HBAI) statistical report provides results for 40, 50 and 60 per cent of mean and 50, 60 and 70 per cent of median. In this study, estimates were also produced on a before and after housing basis, and are reported both using a contemporary (relative) and a constant (absolute) threshold. This results in a total of 24 different poverty lines and a set of estimated poverty rates ranging from six to thirty three per cent (Department of Work and Pensions 2002).

As these percentages are essentially arbitrary, these lines do not reflect any specific standard of living, or any particular set of needs. Further, as these proportions are simply applied to certain statistical points of the income distribution they also lack any substantive theoretical basis – other than the broad concept that income poverty is linked to the distribution of incomes amongst members of the society.

This mechanism has been explained by Sen as:

“Relative deprivation in the space of incomes can yield absolute deprivation in the space of capacities. In a country that is generally rich more income may be needed to buy enough commodities to achieve the same social functioning such as ‘appearing in public without shame.’” (Sen 1982)

At the same time, however, Sen again emphasised that it is not just income which is important, citing other factors including employment, health care and education. Of course, this conceptual linkage does not provide a basis for estimating the relative income point at which this effect occurs.³⁷

One conceptual interpretation that can be applied in this area of debate concerns the choice between the mean or median measures. That is:

- The use of a poverty line based upon the mean is primarily interested in issues of redistribution across the community. Hence, a reduction in poverty can be achieved as much by a reduction in very high incomes as it can by increasing those at the bottom. Conversely it also implies that if anyone at any point of the income distribution increases their income, then a share of this should flow to those at the bottom.
- The median measure, in contrast, links the concept of poverty to what is happening in the middle of the income distribution. In this way it can be thought of as focusing on the relationship between those at the bottom and the middle of society, and, in particular, whether the incomes of those at the bottom are keeping up or falling behind, with a risk of these people becoming detached from the rest of the society.

Because this measure ignores changes in the upper half of the income distribution, it has been criticised for not taking account of possible increases in inequality between the poor and the very rich. A counter to this is that as a relative poverty measure it seeks to reflect the norms and living standards of the society – standards that are more likely to be reflected in the experience of those in the middle of the income distribution – not amongst the small number at the top.

A further issue on these two approaches concerns their statistical properties. Estimates of the median are much more stable than those of the mean, which can be affected very strongly by outliers.

Once established, updating poverty lines also involves further decisions

In addition to the decision on how the poverty line should be established in the first instance, a second decision has to be made on how to update or adjust it over time. With distribution-based measures this is usually done by simply recalculating the mean or median each time a new data set becomes available. While this is internally logical, with the underlying nature of these lines being a relative measure, this process is not unproblematic.

One of the limitations of the approach can be seen if a closer look is taken at the results of the NATSEM analysis for The Smith Family, published in *Financial Disadvantage in Australia 1990-2000* (Harding, Lloyd and Greenwell 2001). Here the poverty lines have, as is standard practice, been recalculated in each time period based upon the income distribution at that time. The results show that between 1990 and 1996, because of falling real incomes in Australia, the half mean poverty line (using Henderson equivalence and for a standard reference household and in real dollar terms) fell by \$9 per week, and the half median by \$18 per week. Between 1996 and 2000 it reports that the half mean poverty line rose, in real terms, by \$42.50 using the half mean, and the half median by \$36.50.

This means that a household that had an income of \$382 in 1990 (all incomes in 2000 dollar values) and was hence classified as being in poverty at that point, could have received \$8 per week less than this six years later but now be counted as being not in poverty, despite in fact being poorer. By contrast, in the later period, if a household had an income of \$374 per week in 1996 – and were hence classified as not being in poverty – by 2000, even if they had gained a real increase in their income of \$41 per week they would be considered to be in poverty.

Put simply, a loss in real disposable household income over the first period could see a household move from being in poverty to not being in poverty, while even with a substantial 10 per cent increase in real income in the second period, they would move from being non-poor to being in poverty. While such perverse interpretations may make sense in an academic framework, or possibly in the context of very long-term societal changes and disruptions, they offer very little for social policy.

Rather, for policy purposes in the short- and medium-term, a more important question is what has been happening to the incomes of low-income households. Have these increased, or have they fallen, and have the number of people on low incomes risen or declined? In the short and medium term a policy response to an identified problem of low income is best judged by whether the incomes of these target households have increased. That is, what is important is the absolute change in income and the capacity of households to purchase goods and services, not the relative movement of one person's income compared to that of others. To do this a poverty line which was maintained in real terms would be much more informative about the impact of changes, than one which fluctuates on the basis of other changes in the society or economy.

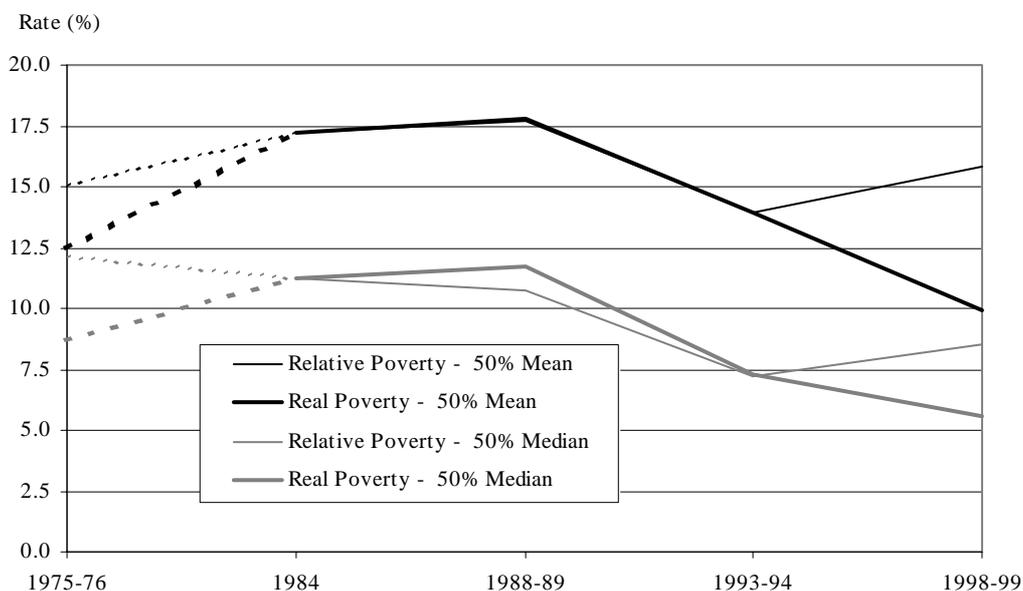
While this type of approach has often been used in Europe – for example the HBAI data noted above, and in some of the supplementary indicators adopted by the EU, it has not been used extensively in Australia.

As shown in Figure 26, the use of such a fixed real, or absolute, line can show quite different results from those generated by a purely relative measure. It also shows the differences between poverty lines based on different statistical aggregates. While the data show the full range of results which are available from HES, changes from 1975-76 to 1984 are shown as dashed lines, as it appears that the results of the 1975-76 survey are not necessarily comparable with those from later surveys.

In this graph the real, or absolute, poverty line is derived from the 1984 income distribution, with the values of half mean income and half median income obtained in that year being adjusted backwards to 1975-76 and forwards to 1988-89 and subsequent years by price changes alone. In contrast the relative measures are simply recalculated in each period based upon the median and mean income at that point in time. The chart shows, using the 50 per cent mean line, that both relative and absolute poverty increased up to 1988-89, before falling over the next five years. However in the final period the two series diverged significantly as rising average incomes drove the relative half mean poverty line higher, but this higher

income enabled many lower income households to rise above the 1984 poverty line which is used for the absolute measure.

Figure 26: RELATIVE AND ABSOLUTE POVERTY ESTIMATES (HES) 1976 TO 1998-99³⁸.



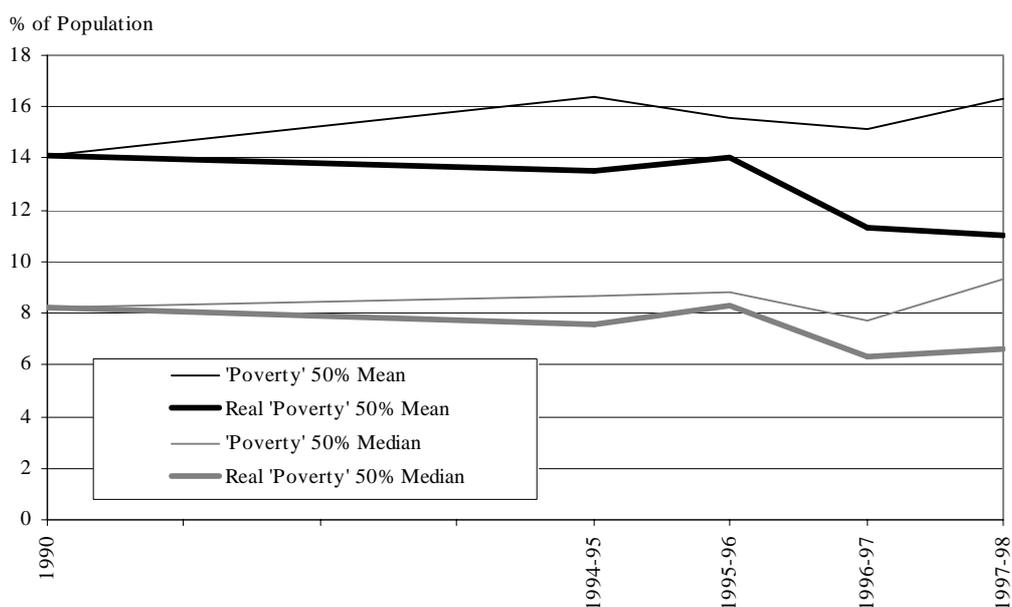
Source: FaCS derived from ABS Household Expenditure Survey (HES) CURF (various years), Cat No. 6541.0.15.001.

The trends in half median poverty are similar – although between 1984 and 1988-89, while real poverty rose, relative poverty fell. This reflects the way in which falling community incomes can make it appear that low income households are moving out of poverty when in fact their real purchasing power is declining.

As has been discussed extensively elsewhere in this submission, these estimates of the poverty rate are though constrained by the many known problems of data quality and the limitations of simple income poverty measurement.

Figure 27: RELATIVE AND ABSOLUTE POVERTY ESTIMATES, SIHC, 1990 TO 1997-98³⁹.

NOTE: Data currently under revision by ABS



Source: FaCS derived from, ABS SIHC/IDS (various years) CURF, Cat No. 6541.0.15.001.

More detailed recent trends, using the same measures (but basing the absolute series on incomes in 1990) and using the more commonly used Survey of Income and Housing Costs data, are shown in Figure 27. Here an even clearer pattern of divergence can be seen, with slight rises in relative poverty and falls in the real or absolute measure. (As has been discussed elsewhere, in addition to more general cautions about this type of approach, these data are subject to revision and should be treated with particular care.)

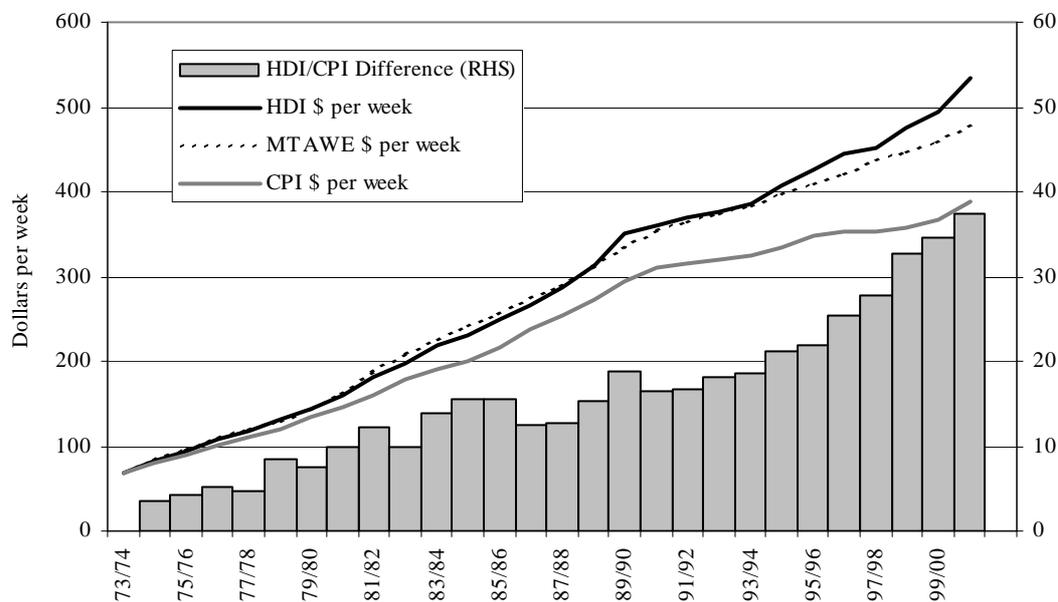
The extent of this divergence is much more marked with the half mean measure, where by 1997-98 the relative measure produced poverty estimates which were almost 50 per cent higher than those generated by the real, or absolute, measure.

The basis for adjusting scales over time is also important for the HPL, and indeed has been one of the main reasons that this line has become increasingly irrelevant to analysis in Australia. Although Henderson initially updated his line by movements in Average Weekly Earnings, he later expressed some reservations over this, especially the degree to which bracket creep (the effect of inflation on progressive income tax liabilities) meant that post tax incomes were not increasing at the same rate. As an alternative he suggested that a national accounts aggregate could be used. This was undertaken by the Melbourne Institute of Applied Economic and Social Research, which has taken on the role of custodian of this indicator. The measure it has adopted is Household Disposable Income (HDI) per capita.

Figure 28 illustrates the impact of the use of this for the value of the HPL, and contrasts this result with the effect of using alternative indices.

The graph shows the marked difference between the use of the HDI index and the CPI, which accounts just for price changes. Indeed, by 2002, the HPL indexed by HDI per capita was 37 per cent higher than it would have been if inflation alone were taken into account. The graph also shows that the use of the HDI has also resulted in a much higher estimate than if earnings were used, with this effect being most pronounced over the past five years. Most importantly, the National Accounts measure of Disposable Income has also risen faster than household incomes as measured in household surveys.

Figure 28: HENDERSON POVERTY LINE, IMPACT OF DIFFERENT APPROACHES TO INDEXATION



Source: Melbourne Institute, Poverty Lines: Australia various editions; ABS, Consumer Price Index (Cat. No. 6401.0), various issues.

The main reason for these differences is that the National Accounts concept of HDI includes some concepts of income that do not reflect the resources directly available to households for spending.⁴⁰ These include the value of employer superannuation contributions, superannuation earnings and the imputed value of rent on owner occupied housing. A further distortion is the use of a per capita estimate of HDI which does not take account of the falling size of households. Applying the rate of change in this aggregate

(which in essence uses an equivalence value of one for each person) to a fixed household structure, which uses an equivalence scale that gives lesser weight to additional persons, will overestimate the rate of growth in the HPL.

Commenting upon this Harding and Szukalska reported that between 1982 and 1995-96 the HPL had increased from being 51.4 per cent of average income to 59.5 per cent and concluded:

“Thus the reason why the Henderson poverty line is producing a picture of an ‘ever-rising tide’ of poverty is because it is set at an ever-rising proportion of family income.” (Harding and Szukalska 1999, p42)

A similar criticism has been voiced by researchers from the Social Policy Research Centre who after considering trends in household income from ABS Household Expenditure Survey and the ABS Surveys of Income and Housing Costs concluded:

“This approach [Henderson Poverty Line adjusted by HDI] ... suggests that the extent of poverty may have been increasingly overstated from 1981 onwards in studies that rely on the Henderson Poverty Line. Further some degree of overestimation may exist in all poverty estimates calculated using the Henderson Poverty Line and data considered in this paper.” (Siminski, Saunders, Waseem and Bradbury 2002),

Notwithstanding this and similar critiques, the HPL is still favoured by some groups, especially in the welfare sector. This has meant that some researchers, including Harding, still produce estimates based on the HPL. This, though, is generally highly qualified. For example, in The Smith Family report of 2001, Harding stated:

“Although the results of the Henderson Poverty Line are included in this report because of community demand, we do not recommend the use of this poverty line.” (Harding, Lloyd and Greenwell 2001)

The number of, often arbitrary, decisions in establishing poverty lines has given rise to much recent debate in Australia

Given this, and other rejections of the HPL, more recent debate on poverty lines has largely ignored this measure and has rather focused on the merits of using mean and median measures, more broadly on the question of using income poverty itself, and the extent to which results may be distorted by data quality problems.

The most recent debate was triggered by the NATSEM reports for The Smith Family. While the first of these reports contained a range of estimates using different approaches to the poverty line and noted, “There is no agreement in Australia or overseas about what is the most appropriate line to use”, the focus of the discussion in the paper was on the half mean measure. The authors stated that the focus on this measure was at the request of The Smith Family who had commissioned the work.

“In the main report we concentrate upon the 50 per cent of the average Henderson equivalent disposable family income poverty line, as requested by The Smith Family.” (Harding and Szukalska 2000)

The results of this and the subsequent study were analysed by the Centre for Independent Studies (CIS), which formulated a number of criticisms focusing on the nature of relative poverty lines, especially:

- the extent to which increases in income amongst the poor may have no impact on measured poverty;
- the use of the half mean measure; and
- data quality.

In this latter, they highlighted the discrepancy between the income and expenditure by low income households (Tsumori, Saunders and Hughes 2002). These criticisms were further developed in a number of the Centre's publications and in media articles, and consequently were drawn together in a book published by CIS *Poverty in Australia: Beyond the Rhetoric* (Saunders and Tsumori 2002).

The criticisms prompted a diverse range of responses. Overall these opposed the critical approach of the CIS and rejected its preference for an absolute measure. A number of these criticisms did not seek to engage with the issues raised, but rather considered that any discussion on the technical questions of how poverty should be defined and measured was a distraction from the question of addressing need.

Others, while disagreeing with CIS, noted some validity in some of their arguments. Peter Davidson from ACOSS, for example, agreed that there were valid concerns with the use of weekly income data, but noted that ABS annual data were not reliable, and suggested it was possible to go further to address the issues of negative income and under-reporting. He also agreed that direct measurement of outcomes rather than incomes was a preferable approach,

“In an ideal world, comparing the actual standard of living of people, not their incomes best does this”, he concluded though “Nevertheless, income is the best available proxy.” (Davidson 2002)

The article also provoked an extensive response by Saunders and Smeeding. They also disagreed with the overall approach of the CIS and challenged the concept of an absolute poverty line. They did, however, lend support to the CIS view on the use of mean and median based poverty lines. In an article entitled *Beware the mean* they noted that the median had a number of advantages, including its statistical property as a more stable aggregate and concluded:

“Put bluntly, the use of a poverty line linked to mean income produces excessively high poverty rates, that also tend to increase by more when poverty is rising but to fall by less when poverty is falling.” (Saunders and Smeeding 2002a)

In considering this claim it should be noted that it is usual in earnings and incomes distribution for the mean to be higher than the median. This results from the shape of the distribution which is skewed towards the bottom. That is, the distribution usually only has a small lower ‘tail’ of very low incomes, a large concentration of incomes in the lower to middle range and then an extended top ‘tail’ of high and very high incomes.⁴¹ However this does not automatically mean that a mean based poverty line must be higher than a median based line, because the line is also a function of the proportion of income (whether mean or median) chosen by the analyst. As a consequence, a higher poverty rate is generated by the use of the mean, rather than the median, only if a constant proportion is used for both measures. To counter this effect, some analysts who used both measures adopt a lower proportion of income to derive their mean poverty line, say a 40 per cent or 50 per cent of mean income line and a 50 per cent or 60 per cent of median income line.

This article, in the May 2002 SPRC Newsletter, was followed by a response from Easton, a New Zealand analyst, who, citing New Zealand data, expressed some concern about the use of the median. He suggested that, where there was a hollowing out of the income distribution with increases at the top, this might lead to apparent decreases in poverty despite falling incomes and increasing inequality. His conclusion was:

“Perhaps neither the median or the mean household income is a satisfactory reference point for establishing a workable poverty line. My view is that there is a need to look outside the income distribution at the actual living standards of those on low incomes and make a social judgement as to an appropriate income line which reflects the community judgements on poverty.” (Easton 2002)

In a response to this Saunders and Smeeding reiterated their arguments on the statistical value of the median, but, in discussing an Irish counter-example, opened up the question of absolute rather than relative measures, which has been illustrated earlier.

“There [in Ireland], real mean and median incomes have both increased by large amounts over the past 20 years, but with incomes at the top end gaining more than those at the bottom end. Poverty - measured relative to either median or mean income - increased, but by any fixed or absolute poverty measure, there was great progress and poverty fell dramatically.” (Saunders and Smeeding 2002 b)

A useful contribution was also made to this debate by Professor David Johnson of the Melbourne Institute of Applied Economic Research, who reiterated the responsibility of researchers to make it clear that:

“All measures reflect the value judgements and choices of the researchers. Particular choices may reflect societal attitudes better than others, but there is no objective measure of poverty.” (Johnson 2002)

He also addressed the question of a reliance on relative measures alone:

“Modern societies are concerned about both absolute and relative poverty, or to put it another way, about both material standards of living and the relativity between people. If this is true then poverty research should report both, clearly distinguishing between them.” (Johnson 2002)

Poverty headcounts are sensitive to minor changes in poverty lines, but depth of poverty measures can be badly affected by data problems

Although most studies tend to report results as headcounts and headcount ratios, the number of people in poverty and the proportion of the population this represents, such results are known to be problematic. In Australia very high proportions of the population are clustered around the maximum rates of social security benefits. Over time, and depending upon what particular line is chosen, it has not been unusual for benefits to have been a little below, or a little above such lines.

A consequence of this is that very small changes in the poverty line, or in group incomes, can result in large numbers of households moving into or out of poverty. As well as making estimates quite volatile, this pattern suggests that the differences between ‘being in poverty’ and ‘not being in poverty’ are not very significant for large numbers of households. That is, there is very little difference in the living standards and outcomes between those households just above or just below the poverty line.

Such sensitivity is particularly marked in Australia in contrast to other countries which have income-related payments, in that households in receipt of income support generally have very similar incomes, which are often situated close to some poverty lines. As a consequence, small changes in the level of these lines can move complete classes of income support recipients into or out of poverty and make Australian results very volatile.

Given this sort of problem, one of the World Bank’s leading analysts, Angus Deaton, has concluded:

“I see few advantages in trying to set a sharp line, below which people count and above which they do not. Poverty lines and poverty counts make good headlines, and are an inevitable part of the policy debate, but they should not be used for policy evaluation.” (Deaton 1997, p144)

Conceptually, these problems can, in part, be addressed by the use of ‘depth of poverty’ measures that take into account not just whether a household or individual is below the poverty line, but also how far below the poverty line they are. While this is theoretically a much superior approach, its use is limited by two factors:

- The presentation of results is less attractive for researchers, as it doesn’t provide the same sort of simple picture as being able to say, in an absolute fashion, that there are so many hundred thousand households in poverty.

- The value of the method is significantly depreciated in the presence of poor income data. That is, the largest contribution to the measure is made by those households with the lowest reported incomes. Where there are doubts as to the quality of this data for this group, something that is certainly the case in Australian surveys, it means that the measure is more reflective of the extent to which some households report negative, zero or ultra low incomes, rather than providing information on the extent to which low income households are below the poverty line. This problem is even further exacerbated through the use of measures such as the Sen Index and the Foster, Greer and Thornbecke (FGT) indicator⁴² which place even greater value on the lowest income/biggest gaps and the extent of inequality amongst the poor.⁴³

As a consequence, until these problems of data quality can be resolved and survey data can be considered as an accurate reflection of household incomes and resources, especially at the lower end, such poverty gap measures have little to contribute in contemporary Australian analysis.

A further concern is that these measures only take account of the incomes of those below the poverty line, and not those who may be just above the line. As a result, it continues to assume that such a contrast can be drawn.

How income is defined and the period of income that is taken into account can affect results

The most usual form of income used in poverty analysis is disposable income. This comprises earned income, unearned income from investments and transfer payments – both those from government sources and some private transfers such as child support, less income tax. As this income is usually based on taxable income, deductions include interest payments on investments (including negatively geared property). However, the definition excludes capital gains and other benefits, such as imputed rent from owner-occupied housing. Although some private transfers such as child support are included, many others are excluded. These include transfers between family members as well as non-cash assistance from government and other sources. Each of these definitions can have quite marked effects.

In some analysis housing is treated separately. The main reasons for this are the relatively high proportion of income spent on housing and the extent to which expenditure varies between renters, purchasers and owners, and between public and private renters. While excluding housing resolves some of these problems, it introduces others. Housing expenditure for most households is not independent of other costs. In some cases households seek lower housing costs – but pay higher transport costs; in others the cost of housing may be traded off against heating and cooling costs, or water consumption. As a result, a household that is paying a higher rent for a good quality well situated dwelling with good public transport links may be treated as being in poverty, while another household, on the same income, living in a cheap, poor quality and badly located dwelling would not be in poverty.

A partial response to the potential distortions introduced by concessional rents in public housing is to include an estimate of the value of the rental subsidy in income (this produces parity with low income private renters who obtain Rent Assistance). A similar approach can also be adopted for homeowners by including an imputed estimate of the rental value of their dwelling.

For example, Frick and Grabka (2002), in a cross-national study that looked at the impact of the value of housing, concluded:

“Especially among the elderly, the inclusion of imputed rent yields an improvement in the measure of their economic well-being ... the inclusion of IR [imputed rent] yields a distinct poverty reducing effect, especially in the UK.”

This question hence also has a differential effect on international comparisons. The issue of relative rates of homeownership is thus important to understanding any cross-national estimates of poverty and income distribution.

The exclusion of other forms of non-cash assistance also poses problems, especially where these are targeted at low-income households and can be considered as a direct substitute for cash assistance. Examples of such

assistance include discounts on transport and rates and other concessions, as well as targeted health assistance, and health care more broadly, given the extent to which it is redistributive in its funding. The provision of this assistance means that the effective capacities of low-income households to consume goods and services, relative to other members of the community, are above those suggested by their income levels. Although some account can be taken of access to these types of concessions and assistance in household budget approaches to a poverty line, they cannot be accounted for so easily in relative, distribution based measures of poverty. Even when included, they usually also involve significant approximation based upon modelling.

The treatment of business losses and other reported negative income also has an effect. For example, unless data are adjusted to reduce the impact of such negatives, over 92,000 out of the 898,000 households with incomes below the 50 per cent of median income level have a net negative income from either their own business or from property investments. This accounts for some 13 per cent of the people identified as being in poverty. While data are only available for the net income from these sources, it is probable that, for many more, there will be some negative offsets that act to reduce their total income from these sources. Some idea of the scale of such income reductions can be gained from data on negative gearing and borrowings for investment. Negative gearing on rental investments has been following an upward trend in the six years to 1999-2000, albeit with some variability associated with interest rate movements (Australian Taxation Office 2002). Analysis of the ABS Household Expenditure Survey indicates that, despite falling interest rates over the period total negative incomes have risen from the equivalent of 0.8 per cent of income in 1988-89 to 1.6 per cent in 1998-99.

While obviously in some cases poor business returns may well be a cause of deprivation and disadvantage for a household, for many others this type of loss on current income may well be better considered as an investment in future earnings, or in the case of geared property or shares in future capital gains. This effect not only affects the level of measured poverty in Australia, but also, as the size of this group has been growing over time, poverty trends.

Because household incomes fluctuate over time, the period of income can also influence results. Australian income analysis is unusual because of the general reliance that has been placed on using current income rather than annual income, which is more common in international research. The main reason for this is that a general view has been formed that current income has been more accurately reported, especially with regard to the level of income support payments, than annual incomes. Harding, Lloyd and Greenwell (2001), for example, report,

“Although annual income data would thus be our preferred choice, given concerns about the comparability of ABS annual income data over time we have used current weekly income as the measure...”

The consequence of this is that it is likely that poverty estimates using weekly data will have a reasonably high ‘noise’ component that reflects short-term fluctuations in household receipts. This is important as such fluctuations may disguise the actual level of affluence of households. One approach, discussed later, is to use expenditure data, which is held, on theoretical grounds, to smooth out fluctuations in household incomes.

The extent of income mobility which has been discussed earlier also has implications for income based poverty analysis. The OECD (2001) reported on a study of the European poverty experience over time during the early 1990s. This showed that while the annual poverty rate averaged 11.7 per cent, over a three year period some 19.2 per cent of the population was in poverty in one of the three years, but just 3.8 per cent for each of the three years. A similar picture was also presented in the study which also provided a comparison of the European experience with that of Canada and the United States. Poverty rates in these two countries were not only higher, but also more ‘sticky’. In the United States, in particular, there was much less mobility in and out of poverty – with 23.5 per cent of the population being in poverty for at least one of the three years, and 9.5 per cent (some 40 per cent of the number who experienced poverty at one point) being poor for all three years. This proportion contrasts with the experience of countries such as

Denmark, Ireland, the Netherlands and the United Kingdom where only 8 to 12 per cent of those who were poor at any one time were poor for all three years.

The OECD (2001) described these outcomes as

“an overall paradox that has important implications for policy making: poverty is both fluid and is characterised by long-term traps. Most poverty spells are short and many short spells appear to represent transitory set-backs for persons with adequate income over the longer term. However, the typical year spent in poverty is lived by persons who experience multiple years in poverty ...”

Technical decisions such as whether income should be pooled within households and how to adjust for different household size also have an impact on results

In addition to the choice of measures, income distribution analysis involves a range of other choices for which, again, there are often scant grounds for definitive determinations. Two important questions concern how income is shared within households and families, and the relative needs of different types of household.

Does everyone benefit from the income received by some members of the household?

The question of income sharing leads to decisions on the unit of analysis. In most families and households only some individuals earn or receive income. If income analysis were conducted at the individual level then a large number of people, including virtually all children, would be seen as being in poverty since they have no income in their own right. To overcome this, in analysis income is usually pooled across these people. Two approaches are most commonly used:

- Income units: these are usually defined as single people or couples and any dependent full-time student children under the age of 24 years who live with them. Other people living in the same household, including children 16 years and above, who are not full-time students, are treated as separate income units who are totally independent and reliant upon their own income.
- Households: ABS defines these as people who live in a single dwelling and who share meals.

Empirical analysis does not provide any real resolution to this choice as it usually shows that pooling is partial; that is, there is some, but not complete, pooling. Importantly, this is as true of the use of income units as it is of households. Studies, such as those of Lancaster and Ray (2002) and Lundberg, Pollak and Wales (1996) suggest that, even when simply restricted to partners in a relationship, pooling is incomplete. Similar results are recorded for expenditure on children, including dependent children, with analysis showing that expenditure on children's needs is sensitive to which parent obtains the income.⁴⁴

While clearly showing that complete pooling is not a valid assumption, this type of analysis usually shows that some significant pooling does occur. In this context, it is not simply whether people directly share income, but whether they share expenses such as heating and housing costs, or derive benefit from other people's expenditures. While these analyses are largely directed within families and income units it might be reasonable to expect this type of outcome to also extend to households. As a result they do not provide any specific guidance – other than suggesting that neither assumptions of full sharing, or of no sharing, can be sustained. Nevertheless the constraints of income poverty analysis require us to make such an assumption.

This debate on the level of pooling to be used is sometimes couched in terms of: the 'income unit' approach understating the extent of sharing and hence overstating poverty; and the 'household' approach overstating the degree of pooling and understating poverty. But this characterisation is not really correct - rather the primary difference tends to be in who is identified as being in poverty under the different approaches.

This difference can be seen in analysis using a 50 per cent median poverty line, person weighting and 1997-98 SIHC data. (These results are however simply illustrative as the data are subject to revision to

overcome known problems.) Using the income unit as the basis of analysis generates a poverty rate of 9.8 per cent. This is only a little higher than the 9.0 per cent estimated when using the household as the basis for analysis. However, the identification of who is in poverty is quite different. The income unit approach suggests that there are 225,225 non-dependent children living with their parents who are in poverty (23.3 per cent of such children), compared to 31,794 under the household approach (3.3 per cent). That is, a seven-fold difference. In contrast, while the household approach suggests that there are 193,352 single people aged over 55 years living in poverty (22.1 per cent), the income unit approach estimates less than half this number, 79,839 (9.1 per cent).⁴⁵

As can be appreciated, this type of massive change in the groups identified as potentially needing assistance raises very important questions, if such measures are to be used for any policy or program purposes.

In most income analysis FaCS prefers the household as the basis of analysis. One important reason for this is the structure of income support payments, for example living at home rates and sharers' rates, which acknowledge the presence of others in the household. Further, even where income pooling might only be partial, people living in a house generally gain some benefits from the expenditures and assets of others – ranging from use of household appliances to sharing transport. In addition the Department recognises that the family responsibilities implicit in the broader concept are an integral component of the role of families in our society, an objective we seek to support through our focus on stronger families.

Household income also should be adjusted to take account of the number of people in the household and their needs

The needs of households vary, with the most easily measured determinant being the size of the household. To take account of these differences analysts use 'equivalence scales'. These allow the incomes of households with different household compositions to be compared with each other and with any benchmark income poverty line.

As with other areas of income distribution, there is little agreement on what such scales should be, and there are a number of ways in which they can be derived. Notwithstanding this lack of agreement on what to use, there is relatively strong agreement that income data does need to be equivalised for inter-household comparisons to be valid.⁴⁶ Most frequently used in current analysis in Australia are the modified OECD scale and the simplified Henderson Scale. The modified OECD scale provides a weighting of 1 for the first person in a household and 0.5 for each subsequent adult and 0.3 per child.⁴⁷ The Henderson scale, even in its simplified form,⁴⁸ is much more complex, taking into account the number of people living in a household, their employment status and the age of children. While it can be argued that this greater detail makes the Henderson scale a more sensitive measure, against this must be weighed a number of disadvantages. The major one is whether the 'modest but adequate' household budgets drawn up by Budget Standard Service of the Community Council of Greater New York for a New York family in 1954, which, for example, excluded any motor vehicle costs, are relevant to Australian households today. Stanton, in his critique of the Henderson Poverty Line, noted in 1980 that, "That assumption was heroic in 1966, but in 1973 it was astonishing" (Stanton 1980). The second is whether the way in which it is applied is appropriate, especially the inclusion of costs of work, based on the costs of full-time workers, for all persons in the labour force, regardless of whether or not they are employed full or part-time, or are unemployed.

In addition to these scales, other scales used include the original OECD scale (first person: weighting of 1.0; second and subsequent adults: weighting of 0.7; and children: weighting of 0.5), and the square root of household size. It needs to be recognised that the use of any general scale is a very blunt instrument since household needs vary not just with respect to characteristics such as children's age and place in the family hierarchy, but also with health and disability status, hours of work, need for child care and many other personal characteristics. Further, as the relative needs of households are unlikely to remain constant across the income distribution, the use of a single scale for both high and low-income households may not be valid.

The use of arbitrary scales thus needs to be balanced against the pretence of using detailed, but in all likelihood equally generalised, scales. While some guidance can be given from sensitivity testing of

different scales, this type of testing needs to consider individual outcomes under different scales, rather than the more common focus just on aggregates.

As with the question of the unit of pooling, the degree of sensitivity of results to changes in equivalence is often very marked:

- Changing the age at which children in a household were treated as an adult for the purposes of the OECD equivalence scale by just one year from 15 to 16 produced a 6.6 per cent increase in the poverty rate (50 per cent of median income) on 1998-99 SIHC data, ie from 8.98 per cent to 9.57 per cent.
- Different equivalence scales can generate opposing trends. Horn and Whiteford report on analysis showing that poverty (income units, 50 per cent of median income) fell between 1982 and 1986 and again between 1986 and 1990 if the OECD scale is used, rose over the same two periods if the detailed Henderson scale is used, and fell between 1982 and 1986, and then rose between 1986 and 1990 if the British McClements scale is used (Horn and Whiteford 2002).

Another issue with the use of equivalence scales is the nature of income that is being subject to equivalisation. Conceptually, most equivalence scales are based upon consumption equivalence, that is, the relative needs of households for the purchase of goods and services. The closest income measure to this is disposable income – total income less taxes. Despite this, it is not unusual for a single equivalence scale to be used for a range of different income measures – from gross income through to final income. This latter includes a wide range of non-cash benefits such as education and health services. These though are not usually taken into account in the design of equivalence scales in the first instance – that is, the equivalence scale for children generally assumes that the costs of education will be substantially covered by public expenditure and hence does not make provision for this cost. The use of such a scale on a concept of income that includes this component can potentially lead to considerable distortions, although in the absence of a range of specific scales, the options for analysts may be limited.

Changing household size can also influence results over time

The final technical issue concerns the weighting of results for unit size differences. The importance of weighting final results by the number of people, rather than the unit (whether as an income unit or a household) was first identified in the literature by Danziger and Taussig. They showed that, unless this was done, changes in household size and composition could severely distort estimated changes in poverty and inequality (Danziger and Taussig 1979). While Danziger and Taussig's point has general acceptance, it is very common for analysts, including the ABS in *Measuring Australia's Progress*, to overlook it (ABS 1370.0 2002e).

Income is not always well measured and poverty results often reflect this, rather than real household outcomes

For analysis to be valid, it is essential that the data that are used are accurate. While the ABS has a high reputation for the quality of its surveys, it has over recent years acknowledged the existence of a number of problems in recording income data.

A particular problem reported by ABS in recent surveys has been an increase in the extent to which income support payments are being under-reported in the surveys. When processing the 2000-01 Survey of Income and Housing Costs (SIHC), the ABS found that, for the second survey in a row, the aggregate reported value of income support payments had declined markedly as a percentage of the income support payments made by FaCS and the Department of Veterans Affairs (DVA). The under-coverage in 2000-01 was 21.6 per cent, compared to 13.8 per cent in 1997-98. (SIHC was not conducted in 1998-99.)

At the time of preparation of this submission ABS are currently undertaking a review of the results of the Surveys of Income and Housing Costs over the period since 1994-9. While as part of this they have released some limited re-estimated results for surveys up to 1997-98, the confidentialised unit record files

for this data have not been made available, nor have the ABS released the unit record file for 1999-2000, or published results for their 2000-01 survey.

It is understood that the primary goal of the revisions being undertaken by ABS is to seek to address the problem of *increasing* under-recording, rather than the larger problem of under-recording itself. This suggests that, while this process may correct possible distortions in **trends** of income distribution and income poverty, it will not address the extent to which estimates of the **level** may be inflated.

In addition to problems at the lower end of the income distribution, there is also some evidence that higher incomes may also be under-reported. To the extent that this occurs, while such under-reporting may distort the results of analysis based upon mean income, as well as income distribution patterns, it would have no impact upon estimates of poverty based upon the median, unless the extent of the under-reporting was such that households with very high incomes actually reported that they had below median incomes.

Expenditure data, while harder to collect, might overcome some of the problems with income; it also suggests that reported low household income does not mean low household consumption

Household expenditure can be used in the same way as disposable income to estimate poverty lines and the number of households with expenditures below this. Approaching poverty in this way takes greater account of the outcome orientation of most concepts of poverty. Further, in most economic measures, expenditure is seen as a better reflection of longer term household living standards as it is much smoother, because households are able to finance expenditure out of their savings, or on the basis of anticipated future earnings. This is particularly important for households who receive their income on an irregular basis or may be in a temporary situation of low income.

When calculated for both income and expenditure, poverty rates can be quite similar. In 1998-99, for example, using HES data, the median income and expenditure for a couple with two children household were \$768 and \$746 per week respectively. Using a 50 per cent median measure also produces quite similar estimates of the proportion of the population in poverty. These were 8.8 per cent for income and 9.0 per cent for expenditure.

However, the two approaches identify different groups as being in poverty, with only 2.2 per cent of households being identified as in both income and expenditure poverty.

These results are shown in Table 8 along with the results of using a much higher threshold of 60 per cent of median income – a level that generates even higher rates of poverty than the 50 per cent mean. Even at this much higher level, fewer than half of the people identified as being in income poverty are also in expenditure poverty.

Table 8: HOUSEHOLD EXPENDITURE SURVEY (HES) 1998-99: COMPARISON OF ESTIMATES OF INCOME AND EXPENDITURE POVERTY

| | Proportion of Population Income Poor | Proportion of Population Expenditure Poor | Proportion of Population Both Income and Expenditure Poor | Income and Expenditure Poor as proportion of Expenditure Poor |
|---------------------------------|--|---|--|--|
| 50 per cent of median income | 8.8 | 9.0 | 2.2 | 25.3 |
| 60 per cent of median income | 18.1 | 16.3 | 7.8 | 42.7 |

Source: FaCS Analysis, derived from ABS (1999) 1998-99 HES CURF, Cat No. 6541.0.15.001

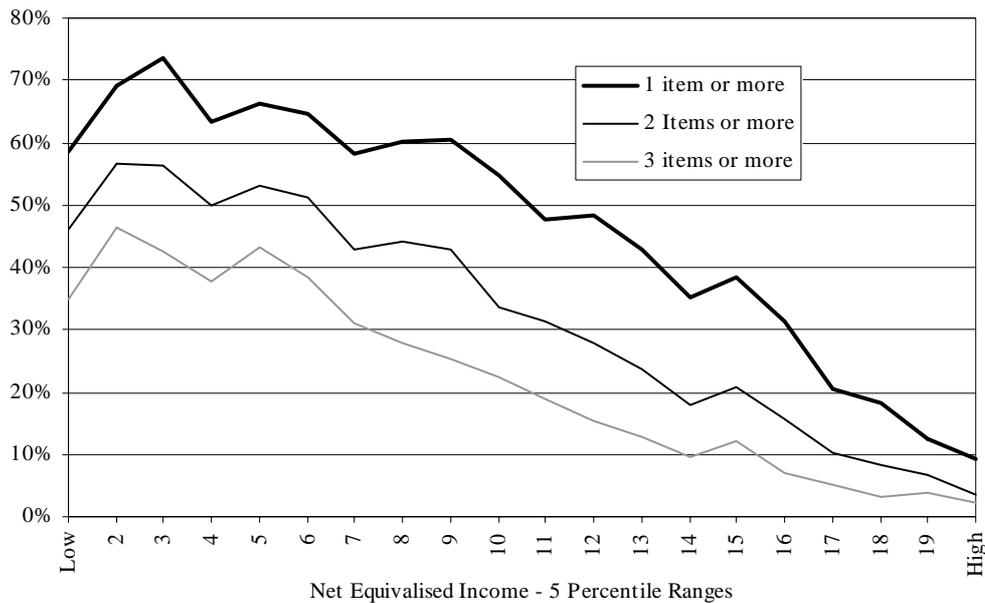
From a policy perspective what is also important is that the two measures provide quite different pictures of who is in poverty, with the income measure identifying higher proportions of couples with children and non-elderly singles, and the expenditure approach identifying more elderly couples. The most consistent results between the two measures were for elderly singles and young singles, but even here fewer than half

those identified in income poverty were in expenditure poverty. For others the accuracy was much less; fewer than 18 per cent of couples with dependent children in income poverty were also in expenditure poverty, and for elderly couples this rate fell to just 14 per cent.

Incidence of 'financial stress'

Another way in which the validity of income data can be considered is the relative incidence of financial stress indicators from the 1998-99 Household Expenditure Survey⁴⁹.

Figure 29: 1998-99 HOUSEHOLD EXPENDITURE SURVEY - INCIDENCE OF NUMBER OF ASPECTS OF FINANCIAL STRESS BY INCOME GROUPING



Source: FaCS Analysis , ABS (1999) 1998-99 HES CURF, Cat No. 6541.0.15.001

A priori it would be expected that households with lower incomes would be more likely to report events that could be considered as reflecting such stress. While such a pattern is exhibited overall, as shown in Figure 29, the pattern is not as consistent as would be expected and incidences of stress persist well beyond incomes which could be regarded as representing poverty. Indeed, looking at the incidence of one or more, two or more and three or more items from the 13 main indicators used in the 'cashflow', 'missing out' and 'hardship' scales, the rate of incidence is lower for the poorest 5 per cent of households than it is for many households much further up the scale. This again suggests that for many low-income households this lack of income is not associated with poor outcomes.

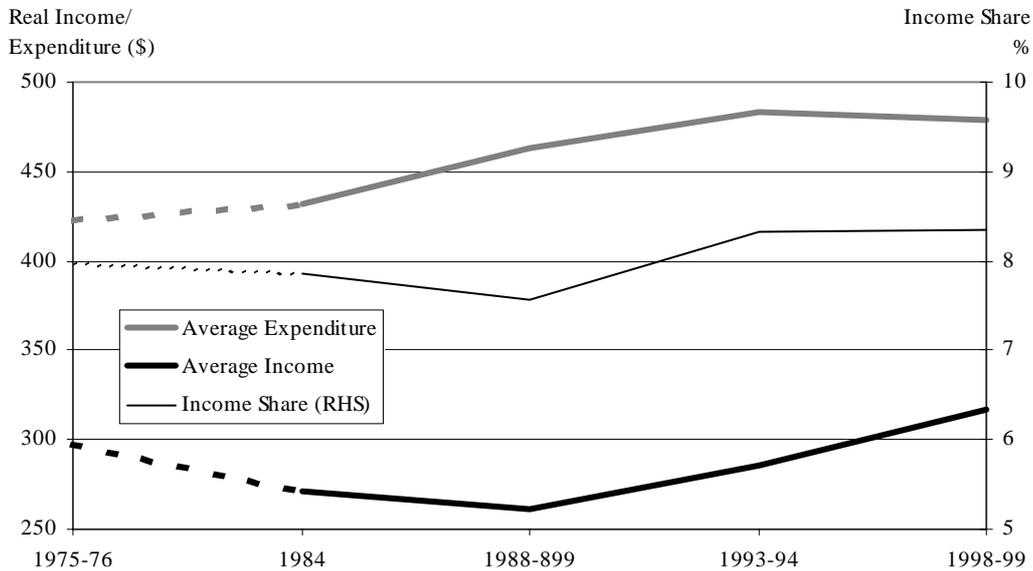
Long-term trends in income and expenditure data

The existence of a discrepancy between reported income and expenditure for many households has been a longstanding feature of the Household Expenditure Survey. It is probable that it reflects a number of factors including discrepancy in the timing of income and expenditure at the time of the survey, household savings and dis-savings, and data quality issues, in particular income under-reporting. As shown in Figure 30, which shows real average income and expenditure for households in the bottom 20 per cent of the income distribution, the extent of this discrepancy has varied over time. It was most marked in 1988-89, and while the two series have converged, in 1998-99 households in the lowest quintile still report spending 50% more on current consumption than they report in income.

Although a number of possible reasons have been cited above for these discrepancies, there appears to be little basis for favouring one over the other. There are reasonable grounds, however, for considering that it cannot be simply attributed to one of these factors, and for believing each may play some part. The

development of longitudinal data sets through the HILDA survey, which will also collect information on household wealth, along with the proposed collection of wealth data in future Household Expenditure Surveys, may provide some insight for future analysis.

Figure 30: HOUSEHOLD EXPENDITURE SURVEYS 1976 – 1998/99: LOW INCOME HOUSEHOLDS, COMPARISON OF EQUIVALISED NET INCOME AND EXPENDITURE



Source: FaCS Analysis, Source: Derived from ABS (various years) HES CURF, Cat No. 6541.0.15.001.

Use of imputed or administrative data

One way in which the possible impact of under-reporting of income in surveys may be partially addressed is through the use of imputed or administrative data. Where studies have been undertaken overseas the results have been dramatic. For example, Behrendt reports on analysis that compared reported income data with data that incorporated imputed values for social assistance for Britain, Germany and Sweden in the mid 1990s (Behrendt 2000). Using the modified OECD equivalence scale, and a half median poverty line, the poverty rate in Britain fell from 9.5 per cent to 2.1 percent, in Germany from 7.5 per cent to 2 per cent and for Sweden from 9.5 per cent to zero. While she acknowledged that in part the difference was explained by some households not taking up entitlements, she attributes the balance to methodological issues concerned with the underlying surveys.

In a Finnish study (Nordberg, Penttillä and Sandstöm 2001) researchers from the Finnish statistical agency were able to compare survey results with administrative data. The study found that the use of survey data generate a headcount poverty rate 61 per cent higher than that obtained if administrative data, including actual income support payments, were used. More generally the analysis suggested that there were diverse patterns of under-reporting. The overall effect of this was though complex, although there was a tendency for the survey results to overestimate inequality as measured by the Gini – but underestimate it using the squared coefficient of variation. . (The Gini and the squared co-efficient of variation are two of a number of measures which can be used to describe inequality – they are discussed in more detail later in this chapter.)

Much less analysis of this type has been performed in Australia. One recent study (Johnson and Scutella 2002) estimated that imputation resulted in 37 per cent of income units in the lowest income decile being moved to a higher income grouping once income support payments were estimated for them – rather than relying upon reported information. This process had some impact on the Gini (falling from 0.386 to 0.367 – indicating a shift towards lower inequality) and a lesser impact on half median estimates of poverty. These fell from 21.2 per cent to 19.2 per cent. However as these results are based upon a study of unequivalised income units and for a limited population, they are difficult to interpret.

Income support payments are generally above the poverty line

A further insight can be gained by considering the relationship between some estimates of poverty lines and income support payments. This relationship is depicted in a table regularly published by the Melbourne Institute of Applied Economic and Social Research. Table 9 is an expanded version of the Melbourne Institute table, including additional income support categories and estimates for the 50 per cent mean and median lines using the modified OECD scale.

The table shows that income support payments, taking into account Rent Assistance, are in most cases above the Henderson Poverty Line, with the exception of some single people (but not pensioners) living alone. In many cases income support payments are well above the Henderson and other commonly used poverty lines. Where single people share housing costs, their payments are generally above the relevant Henderson Poverty Line. The sole exception is students receiving Austudy, primarily because Austudy is not a Rent Assistance eligible payment.

Table 9: COMPARISON OF POVERTY LINES AND INCOME SUPPORT PAYMENTS, JUNE 2002⁵⁰

| | Income Support Including RA \$/week | Henderson Poverty Line | | 50% Mean | | 50% Median | |
|------------------------------|-------------------------------------|------------------------|---------------|----------------------|---------------|----------------------|---------------|
| | | Poverty Line \$/week | Difference \$ | Poverty Line \$/week | Difference \$ | Poverty Line \$/week | Difference \$ |
| Single | | | | | | | |
| Youth - Independent | | | | | | | |
| Allowee - Living alone | 196.15 | 237.98 | -41.83 | 230.17 | -34.02 | 203.16 | -7.01 |
| Allowee - Sharing (2 others) | 181.05 | 162.62 | 18.43 | 153.45 | 27.60 | 135.45 | 45.60 |
| Adult | | | | | | | |
| Austudy - Living alone | 150.85 | 237.98 | -87.13 | 230.17 | -79.32 | 203.16 | -52.31 |
| Austudy - Sharing (1 other) | 150.85 | 182.45 | -31.60 | 172.63 | -21.78 | 152.37 | -1.52 |
| Allowee - Living alone | 229.80 | 237.98 | -8.18 | 230.17 | -0.37 | 203.16 | 26.64 |
| Allowee - Sharing (1 other) | 214.70 | 182.45 | 32.25 | 172.63 | 42.07 | 152.37 | 62.33 |
| Pensioner | 256.20 | 237.98 | 18.22 | 230.17 | 26.03 | 203.16 | 53.04 |
| Pensioner with 1 child | 362.31 | 321.23 | 41.08 | 299.22 | 63.09 | 264.11 | 98.20 |
| Pensioner with 2 children | 423.77 | 400.55 | 23.22 | 368.27 | 55.50 | 325.05 | 98.72 |
| Pensioner with 3 children | 508.12 | 479.88 | 28.24 | 437.72 | 70.80 | 386.00 | 122.12 |
| Pensioner with 4 children | 590.23 | 559.21 | 31.02 | 506.37 | 83.36 | 446.95 | 143.28 |
| Couple | | | | | | | |
| Allowee | 375.50 | 337.10 | 38.40 | 345.26 | 30.24 | 304.74 | 70.76 |
| Pensioner | 394.80 | 337.10 | 57.70 | 345.26 | 49.54 | 304.74 | 90.06 |
| Allowee 1 child | 447.39 | 416.43 | 30.96 | 414.31 | 33.08 | 365.69 | 81.70 |
| Allowee 2 children | 508.85 | 495.76 | 13.09 | 483.36 | 25.49 | 426.63 | 82.22 |
| Allowee 3 children | 589.93 | 575.09 | 14.84 | 552.41 | 37.52 | 487.58 | 102.35 |
| Allowee 4 children | 672.04 | 654.41 | 17.63 | 621.46 | 50.58 | 548.53 | 123.51 |

Source: Melbourne Institute of Applied Economic and Social Research 2002, ABS 2000d, Centrelink 2002.

These results pose a major question – if most income support payments are above the Henderson Poverty Line – which is generally the highest of all poverty lines in use: why do other studies report that, at times, up to 20 per cent of the population live in poverty?

This question is critical if the incidence of poverty is seen in any way as a product of the rates at which income support is provided.

Explaining the discrepancy has many components:

- The calculated rates of assistance, as shown above, include the value of Rent Assistance. Many income support households do not receive this payment.⁵¹ Most of these households however are effectively better off than those who are eligible for Rent Assistance as they gain even higher levels of assistance in the form of public housing subsidies, or the benefits that flow from home ownership. Excluding these items suggests that the discrepancy partly relates to an overly narrow definition of income.
- The estimates of the Henderson Poverty Line assume that the head of the household is not in employment. The costs of employment within the Henderson scale are \$55.52 for the head and

\$71.40 for a partner. In some analyses these additional costs are also included for unemployed persons and are included in totality for part-time workers.

- Problems with survey income reporting, as discussed above.
- Certain groups of apprentices and trainees, and others on junior rates of pay, who are not eligible for income support.
- Administrative or other reasons where people are excluded from payment for one of a number of policy reasons, including activity test or administrative breaches, assets test disqualifications, waiting periods for payments, migrants under the Family Reunion scheme that must be supported by their families, Australian residence requirements and a variety of less common rules specifically preventing some people from receiving income support.
- Failure to take up payments to which people are entitled⁵².

The impact of the last three factors on poverty estimates is likely to be quite small. The numbers of people affected are relatively small and many will be sharing with others, improving their ability to share costs and resources and thus reducing any likely incidence of hardship. It is probable, therefore, that the first three factors are likely to have the largest impact on poverty estimates.

Claims of 'working poor' also need scrutiny

Analysis, such as that undertaken by NATSEM for the Smith Family, has also reported a phenomenon of 'working poor' - households that, despite having members employed and earning income, remain below the poverty line. Indeed in their 2002 report, Harding, Lloyd and Greenwell state:

“There have been suggestions that having a job may no longer be as effective a guarantee against poverty as in the past ... Table 4 appears to offer some limited support to this proposition”.

The data they publish suggest that 45 per cent of income units in poverty have some person employed and in 8 per cent of cases wages and salaries represent the main source of income. Other data suggest a poverty rate of 6.5 per cent for income units with one full-time earner, and 4 per cent with two full-time earners.

As with the relationship between income support and poverty lines, a key question is under what circumstances can such results be generated – or whether they are more likely to be as a result of methodological or data issues.

The obvious first issue is that of data quality, and the degree to which negative incomes or very low incomes may reflect tax and other strategies rather than real household outcomes. The second is methodological. It is probable that the NATSEM result in part reflects the use of the income unit as the basis of analysis, a result that would see children living at home undertaking training, or non-full-time education, in association with part-time employment, being treated as separate units of analysis. In addition the use of a single cost of work component, based upon the costs of full-time employment, may be inappropriate for part-time workers.

A third set of reasons relates to persons who may be excluded from income support supplements, or who fail to claim them.

A final explanation of such claims is where the claim is simply based on a wage rate – for example, the minimum wage and no account is taken of the value of Family Tax Benefit and other support. This obviously is totally misleading.

Otherwise, as shown earlier in Figure 11, households employed full-time at the minimum award rate have incomes well above all common poverty lines. As for those working part-time at minimum rates, they will generally be eligible for some income support, which will put their combined income (wages plus income support) well above the maximum rates of income support, and, as shown in Table 9, these base rates are

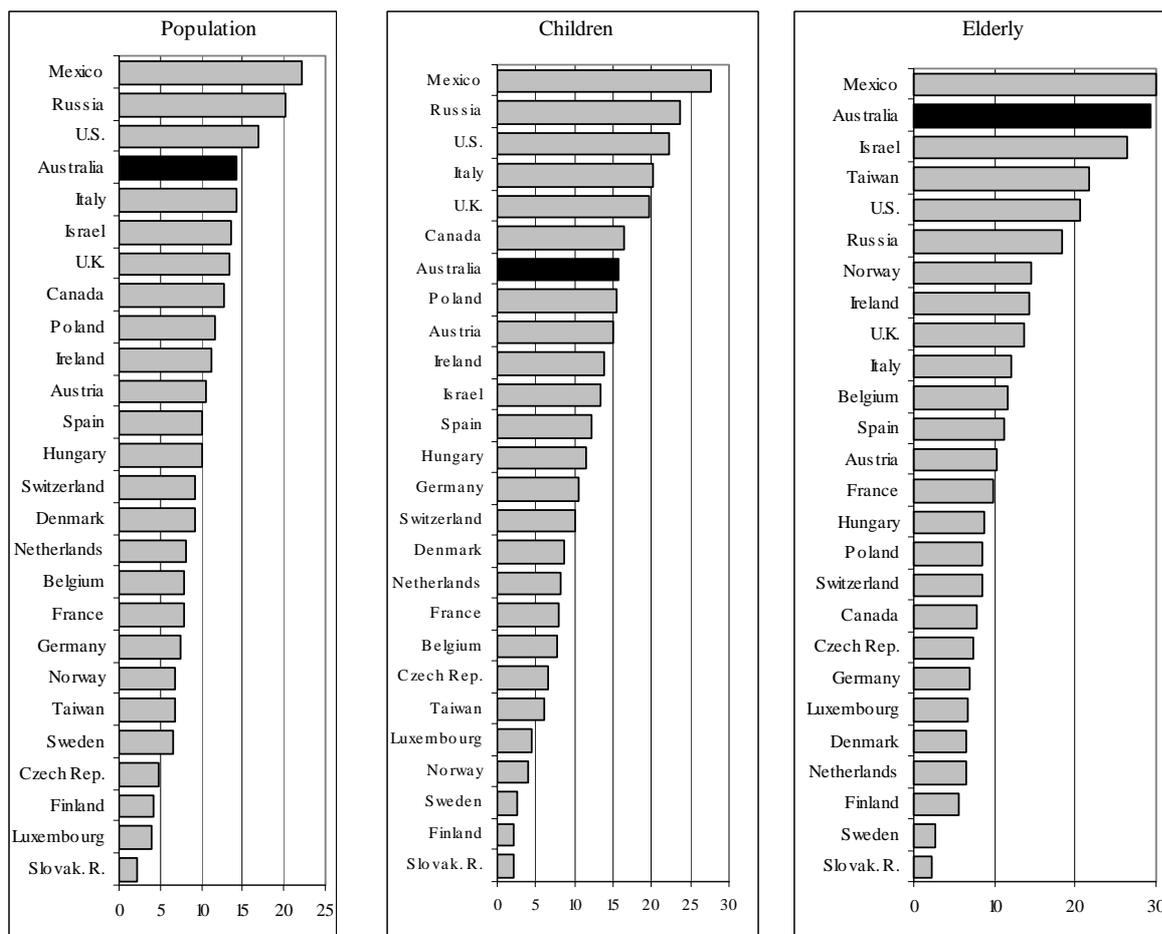
above most poverty lines. It is therefore hard to see how large numbers of workers being paid at minimum rates could have total incomes below any of the ‘common’ poverty lines.

Another dimension of this debate concerns analysis based upon rates of pay and numbers of employees actually living on low incomes. This has a number of dimensions. First, very few workers are earning on or close to the minimum wage: Richardson and Harding (1999) estimated this figure at around six per cent for 1994-95, and further analysis suggest that the proportion of workers with earnings on or below the Federal Minimum Wage of \$385.40 in 2000 was no more than two per cent. Second, of the very few who do earn minimum wages, a substantial proportion are members of higher income families. Richardson and Harding found these workers fairly evenly distributed across the income distribution, with a substantial proportion living in middle to high-income families. Subsequent analysis by this Department of the same ABS data for 1997-98 confirms the pattern of a significant proportion of low-wage workers being located in high-income households. For example, around 19 per cent of workers in the lowest earnings decile live in families with a net disposable income in the top three earnings deciles.

International comparisons need to take into account individual national systems

International comparisons of poverty rates are frequently quoted – usually to show that the rate of income poverty in Australia is high compared to other countries. In most cases⁵³ these data are taken from analysis undertaken as part of the Luxembourg Income Study. This study is an international collaboration that maintains sets of national survey data for cross national income analysis.

Figure 31: INTERNATIONAL COMPARISONS OF RELATIVE INCOME POVERTY (USING 50 % MEDIAN EQUIVALISED INCOME)



Source: Luxembourg Income Study, 2003

The typically quoted results suggest that Australia has an overall poverty rate (50 per cent of median income) of 14.3 per cent, a child poverty rate of 15.8 per cent and an aged poverty rate of 29.4 per cent.⁵⁴

These rates, as illustrated in Figure 31, identify Australia as having high levels of poverty. In particular, Figure 31 suggests that Australia has the second highest rate of poverty amongst the aged – second only to Mexico. In contrast, the data indicate that poverty is particularly low not only in a number of the Scandinavian countries, but also in Slovakia and the Czech Republic and many other countries with standards of living well below those of Australia.

FaCS submits that these results are so misleading in the case of Australia that they should not be used for any serious analytical purpose.

In approaching these estimates a number of factors must be taken into account including that these results are for 1994 rather than being current estimates. The use of this year also causes some difficulties given that there are known problems with the estimates of annual incomes in the ABS 1994-95 Survey of Income and Housing Costs, which may explain, at least in part, the result for the aged.

The key issues though relate to the impact of different national systems:

- The data only take account of the effect of direct income tax and not indirect taxes. Indirect taxes tend to be much higher in many European countries, as well as being more regressive. A consequence is that effective consumption in these countries is more unequal.
- In measuring income only, these comparisons fail to take into account the extent to which high levels of home ownership in Australia, and the concessions governments provide for this, act to lower the living costs of some groups especially the aged.
 - The extent of homeownership and asset holdings by aged pensioners in Australia has been discussed at page 39.

The higher rates of poverty and inequality also reflect the overall structure of tax transfer systems. In particular, comparisons of income distributions in countries that differ in the way they finance social security benefits do not compare like with like.

- Given that employer social security contributions are paying for most social security spending in some countries, but do not exist in Australia⁵⁵ or New Zealand, and are very low in Denmark and relatively low in the remaining English-speaking countries, their absence from welfare state comparisons is particularly problematic. Because these contributions go directly from employers to government, they do not appear in income or expenditure surveys, which only look at the direct transactions of private households. Employer social security contributions can be considered as deferred earnings similar to employer-provided superannuation.

The Expert Group on Household Income Statistics' Canberra Group recommends (at a conceptual level, while simultaneously acknowledging the difficulties of implementation through data collection) the inclusion of employers' contributions to social security schemes as part of wage and salary income in income surveys (Expert Group on Household Income Statistics – The Canberra Group 2001). Adopting the Canberra Group's recommendations would have a massive effect on measured income inequality and relative poverty in many OECD countries, but little effect in Australia (or the other English-speaking countries or Denmark). Because employer contributions are not included in the standard measure of gross wages, the measured gap between those receiving benefits and those in work is artificially narrowed in countries with high levels of employer social security contributions.

- A related complication is that depending on the precise details of the social security system, some proportion of social security contributions and taxes should be treated as part of the net wage package of workers rather than as part of the 'tax burden'. For example, in international comparisons of income distribution, individual contributions to private pension plans are usually ignored and are not treated as reducing disposable income. In contrast, all employee contributions to public pension plans are treated as deductions from disposable income. To the extent that employee (and employer) contributions actually increase individual pension wealth then they should not be treated as burdens. The difficulty, of course, is that the redistributive and personal insurance elements of public pensions are extremely difficult to disentangle, and vary from country to country.

The implication of this is that countries that incorporate strong income maintenance or self-insurance elements into their social security systems will actually redistribute less to the poor than appears to be the case. Put another way, middle income families in work in Australia will appear to be much better-off in relative terms than corresponding income groups in countries with generous public social insurance systems, simply because these surveys do not measure all of the indirect benefits associated with being employed. When poverty is measured as a percentage of mean or median income, lower income groups in Australia must appear to be relatively worse off. In fact, however, there is considerable evidence that when absolute living standards are compared lower income groups in Australia fare much better.

Income distribution

The questions associated with the measurement of income distribution have much in common with those related to income poverty. However, unlike poverty, the concepts of income distribution and inequality have a much more limited focus on relative outcomes. Hence the goal that is to be pursued is also much less clear and is rarely articulated. The reason for this is that social and economic policy with respect to income distribution is usually one of achieving a balance, rather than an absolute objective such as the elimination of income inequality.

How important is income inequality to a society

It is easy to argue that the extremes of income distribution should be avoided:

- Very high levels of inequality are likely to result in a society where there are few common interests between those at the top and the bottom of the income distribution, and where it is difficult to maintain reasonable equality of opportunity;
- Very low levels of inequality suggest that the rewards for those who have invested in their skills, or are willing to make a greater effort, are low, and in all likelihood will result in such people not making these efforts, or if the opportunity exists, possibly moving to societies where they can gain such rewards.

Between these two extremes, however, there is little, if any, evidence of what might be considered as desirable, or as an ideal goal⁵⁶. Although appeals can be made to historical or cross country comparisons, these, as with poverty comparisons, are highly sensitive to the demographic and economic structures of the society and the nature of income that is used. ‘Optimal tax theory’ approaches the question more deductively and tries to quantify the trade-offs between the welfare gains from equality and the losses from poor incentives⁵⁷. It too, however, gives little real guidance to policy makers because it must use some very artificial underlying assumptions.

Hence while there are frequent debates on income inequality, these are usually expressed in terms of either ‘reducing inequality’ or ‘increasing the rewards for individual effort’, with discussion on absolutes focusing more on ‘equality of opportunity’ rather than outcomes.

That debate takes this form is scarcely surprising. As noted in the introduction, Sen (1992) places this subject within a broad philosophical debate.

“I ...argue that a common characteristic of virtually all the approaches to the ethics of social arrangements that have stood the test of time is to want equality of something – something that has an important place in the particular theory. Not only do income egalitarians (if I may call them that) demand equal incomes, and welfare egalitarians ask for equal welfare levels, but also classical utilitarians insist on equal weights on the utilities of all, and pure libertarians demand equality with respect to an entire class of rights and liberties. They are all ‘egalitarians’ in some essential way arguing resolutely for equality of something which everyone should have and which is quite crucial to their own particular approach. To see the battle as one between those ‘in favour of’ and those ‘against’ equality

(as the problem is often posed in the literature) is to miss something central to the subject.”

Depending upon the type of inequality of concern, different measurement tools can be used

A range of different measures is used in income distribution measurement, some of which have been demonstrated in Chapter 4 and have been discussed in the context of the results of some of the research cited above. These include single indexes, the most common of which are the Gini coefficient, the Atkinson and Theil measures, as well as the class of generalised entropy measures and the Shultz ratio, and the squared coefficient of variation – which can also be considered as a special case of the entropy measure⁵⁸. Each of these provides a single estimate that can be considered to represent the degree of inequality or equality.

The Gini is the oldest and most common measure and can be calculated and conceptualised in a number of ways. The first is as the sum of the differences between the incomes received by each person in the society, as a ratio of the possible sum if one person received all the income and the others none. The second approach utilises the Lorenz curve. This is a curve drawn on the basis of the population ranked by their incomes from lowest to highest, which shows the cumulative share of income gained by the cumulative share of the population. Here the Gini can be considered as the space between the Lorenz curve and the ‘line of equality’ (the Lorenz curve which would be formed if everyone had the same income), as a ratio of the whole area below the line of equality. It ranges from zero where income is equally distributed to one where it is received by one person only.

However, a simple comparison of Gini co-efficients cannot be interpreted as a higher or lower level of inequality. This is because inequalities can occur in different ways. For example, one distribution may be unequal because of the high income received by a single household at the top of the distribution, while another is caused by very low incomes at the bottom. Both of these may result in the same Gini being generated, but reflect quite different, and not really comparable, concepts of inequality.⁵⁹

In contrast to the Gini, the Atkinson, Theil and Entropy measures have an additional component that makes them much more suited to social analysis. This is the ability to make the measures sensitive to particular parts of the income distribution. (In contrast the Gini is more sensitive to changes in the middle of the income distribution.) This forces the user to explicitly specify the value he or she puts on different types of inequality.

A drawback in these approaches is that they cannot always calculate estimates from data that contain negative, and in some cases zero, incomes. Given the widespread existence of these in ABS household surveys, this is perhaps one of the main reasons these measures have not been used extensively in Australia, although other reasons might also come into play. In his chapter on the measurement of inequality in the authoritative *Handbook of Income Distribution*, Cowell asks:

“Why is something like the Gini coefficient so consistently popular? ...the index has many apparent drawbacks. It is not decomposable... Its statistical properties are far less tractable than those of easily available alternatives, it does not emerge naturally from the welfare economics of the subject.” (Cowell 2000)

He answers his questions in terms of ‘cultural inertia’ and the graphic conceptualisation based on the Lorenz curve.

Given this, however, there is a very strong case that if single measures are to be used, then the Gini should be one of the less preferred, with priority rather being given to the generalised entropy approaches.

Because of the differences in the characteristics and sensitivities of these measures it is not unusual for different measures to show different trends. This was seen in case of the Finnish analysis of administrative and survey data cited above. Here inequality based on the Gini – which is more sensitive to changes in the middle of the distribution fell – while, when measured by the coefficient of variation – which is more

sensitive to changes amongst higher incomes, it rose. The authors unfortunately did not cite any results for measures which are sensitive to changes at the bottom.

A second group of more descriptive measures also exists. It comprises:

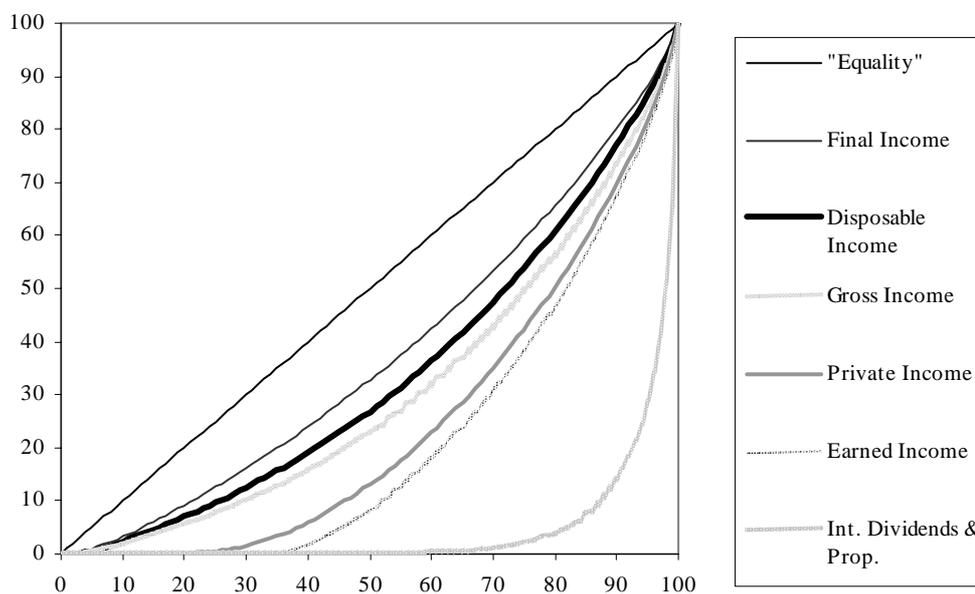
- Income shares – the proportion of income gained by different groups in the population.
- Income ratios – for example the average income of the top decile (10 per cent grouping) of households as a ratio of the income of the lowest decile.
 - These comparisons, reflecting the relative statistical characteristics of means and percentiles are often given as the percentile ratios – the income of the person at the 90th percentile point as a ratio of a person at the 10th percentile.
 - As discussed above, in the *Measuring Australia's Progress* publication (ABS 1370.0 2002e), ABS used the ratio of the mean income of the 10th to 30th percentiles, over that of the 70th to 90th to avoid the problems of data quality at the extremes of the distribution.

While these inequality measures are generally relative, as with poverty measures, there is value at times in focusing on real trends, such as trends in real incomes of different points of the income distribution. This is especially important in those cases where, while actual relative inequality has not changed, or maybe has even reduced, this has accompanied falling real incomes.

Changing income concepts suggest different levels of inequality

As with the measurement of poverty, the analysis of the distribution of income is very sensitive to the income definition used. Figure 32 shows the Lorenz curve for six income concepts or components.

Figure 32: LORENZ CURVES OF INCOME DISTRIBUTION, 1998-99 HOUSEHOLD EXPENDITURE SURVEY.



Source: Source: Derived from ABS (2002), HES FIS Cat No. 6541.0.15.001.

Of particular note in this distribution is the extent to which inequality is reduced by various government interventions including:

- Government pensions and benefits which can be seen as the difference between the private income line (the sum of earned income and interest, dividends and property income) and gross income;
- The impact of progressive direct taxation – the difference between the gross income and disposable income lines; and

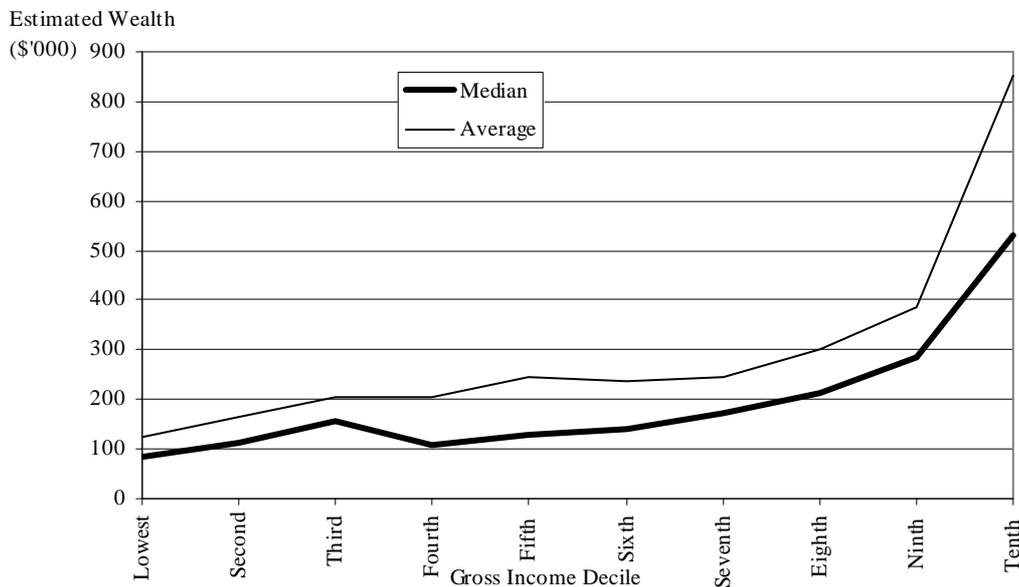
- The equalising effect of non-cash benefits, including education and health services – the difference between disposable and final income.

While informative, this type of analysis can be considered, as noted earlier, to raise a number of questions as to the use of constant equivalence scales across income definitions, and in the welfare interpretation of the results. It also should be noted that in most cases the distribution of the value of services is undertaken on the basis of broad demographic and other characteristics, rather than on the basis of actual use.

Income and wealth

Wealth also plays an important role in generating well-being. Not only do assets, such as investments, generate income for households, but others, such as owner-occupied housing, provide a flow of benefits such as reduced housing costs. In addition assets, if liquid, can be used to smooth consumption over periods of limited earnings, or illiquid assets can be used as a source of collateral for borrowings for such purposes.

Figure 33: ESTIMATED MEAN AND MEDIAN HOUSEHOLD NET WEALTH BY HOUSEHOLD GROSS INCOME DECILE, 2000



Source: Northwood, Rawnsley and Chen 2002

The collection of data on assets is, however, difficult. Many households are reluctant to provide details of their wealth and the value of some assets, such as superannuation and property, may not be known. As a result, little is known about the distribution of wealth and, in particular, its relationship with current income. While this may improve in the future, with both ABS and the HILDA Survey intending to provide some direct data on wealth, most current studies rely upon various simulation techniques.

Recent results include the publication, by ABS, of *Experimental Estimates of the Distribution of Household Wealth, 1994-2000* (Northwood, Rawnsley and Chen 2002). These are illustrated in Figure 33.

This graph indicates that while, as would be anticipated, high income households have much greater wealth than lower income households, many of these latter have significant assets. The poorest 10 per cent of households have on average a net wealth of \$124,000 and half of them have assets of more than \$83,000. While this is well below the mean and median wealth of the highest 10 per cent of households – of \$850,000 and \$530,000 respectively – it does clearly show that failure to take wealth into account is likely to produce quite a misleading picture of outcomes for these poor households. (In contrast to other data in this section, it needs to be noted that the classification of households into income ranges is based on gross unequivalised income. It would be expected that equalisation would reduce the degree of disparity.)

Alternatives to income poverty

As identified earlier in this chapter, income poverty is only one measure of poverty; where poverty is understood in terms of poor outcomes and enforced low levels of consumption it is at best an indirect measure. As has been discussed earlier, Sen's capabilities approach represents a much more coherent and comprehensive approach to this question, although putting it into an operational methodology of measurement has proven to be very difficult. Some other approaches, however, also exist. These are considered below.

Consumption

Consumption, as has been seen in the discussion of comparative income and consumption poverty estimates, offers an alternative also to income distribution approaches. However, measurement is even more difficult than income measurement, especially where many items of consumption, such as consumer durables, are purchased in a very lumpy fashion, so that what we can measure – expenditure – is not done at the same time as the product is used – consumption. It is therefore very difficult to attribute a consumption value to their use in the reporting period. In addition, where consumption may be low, the question that needs to be resolved is whether this is always a result of involuntary restrictions, or lifestyle choice.

Some recent studies have considered consumption inequality in Australia from a number of different perspectives. In 1999 Barrett, Crossley and Worswick looked at trends in consumption inequality between 1975 and 1993. This analysis indicated that consumption inequality was less than income inequality and that while both had risen over the period of the study, the growth in consumption inequality was less. A particular perspective they brought to this analysis was the extent to which demographic factors may have played a part in this. They reported that while population ageing had tended to reduce inequality a little, changing household structures, especially increases in sole parent households, had acted to increase it. Overall though these demographic impacts were relatively small. A 2002 study by Harding and Greenwell sought to examine some of the components of expenditure in more detail. They reported that while income inequality also increased over the period of their study, from 1984 to 1998-99, as did inequality of a measure of 'total expenditure' (an aggregate which also included superannuation savings and property investment), there was no significant change for current goods and services expenditure (the more usual measure) nor for a narrower measure of 'non-durable consumption'. This latter was developed by the researchers to test the extent to which estimates of current consumption may have been distorted by lumpy expenditure on household durables.

Directly measuring outcomes deprivation and hardship

It was noted earlier that, as part of the Adequacy Project, the Department of Social Security funded research into deprivation measures, which eventually led to the inclusion of a number of questions in the 1998-99 Household Expenditure Survey. Detailed analysis of this was undertaken and published in a report *Hardship in Australia* (Bray 2001).

The analysis identified that the set of financial stress questions used by ABS statistically fell into three discrete components of financial stress. These were:

1. missing out on 'accepted' social, cultural and recreational activities;
2. experiencing cash flow problems; and
3. hardship – where households have missed out on a meal, heating, have had to pawn or sell items or obtain assistance from welfare agencies.

Some 8.2 per cent of households report some hardship, while 3.1 per cent report this for more than one item; 38.3 per cent report some missing out, with 21.8 per cent having multiple experiences; and 22.1 per cent report cashflow problems.

The key focus of the analysis was on that group of households that reported multiple hardship. While these represented only 3.1 per cent of households, these households contained 590,000 people including 223,300 children aged less than 15 – some 5.7 per cent of all children in this age group. Although rates of hardship were low for many groups, including aged persons, and couples with and without children, much higher rates were experienced by sole parents and some young persons.

For some groups of sole parents particularly high rates of multiple hardship were recorded: 28.1 per cent for those in public housing and 23.8 per cent in the private rental market. The proportion of income spent on rent generally had little impact on those families with children but an appreciable effect on single person households.

Employment has a very strong influence. Other than those composed of retired persons, jobless households had rates of severe stress more than four times the national average, and a majority of these households reported multiple missing out and almost half reported cash flow problems. In contrast, less than one in fifty households with one person employed full-time experienced multiple hardship. A similar result was recorded within groups – the rate of hardship amongst couples with dependent children was over 10 times higher in households without a person employed than where a member had full-time work. Sole parents with some part-time employment had a rate a quarter of those who did not work, while those with full-time employment had one sixth of the rate.

The impact of employment appeared to go beyond that simply associated with the income it generated, and while rates of multiple hardship were higher for households with lower incomes, only just over half the people reporting multiple hardship were in the bottom quintile of the income distribution. Income poverty measures were poor predictors. While those households reported as being in ‘poverty’ are more likely to experience financial stress and multiple hardship, fewer than half the population experiencing multiple hardship were estimated to be in income poverty, and only around 8 per cent of those in income poverty were recorded as experiencing multiple hardship and under 18 per cent reported even one hardship item. Indeed, depending upon the poverty line used, 40 per cent of households in ‘poverty’ reported no missing out at all.

These results suggest that, where poverty is conceived of as a state of deprivation (eg. where households have missed out on a meal or heating, have had to pawn or sell items or obtain assistance from welfare agencies etc), income poverty measures identify only around half the people who have such outcomes, while the overwhelming majority of those in income poverty – some 80 to 90 per cent - do not report such experiences.

This is a striking outcome – quite simply, it suggests that poverty as usually measured in Australia does not reflect or accurately identify the people with the types of outcomes the community associates with the term.

Taking into account both deprivation and low income – the Irish ‘Consistent Poverty’ approach

Given the limitations of any one single approach, an option is to use a measure that combines an income based approach and a deprivation or consumption approach. This was suggested by Piachaud in his original criticisms of income-based measures and has been developed, in particular, in the Irish concept of ‘consistent poverty’. This measure forms the basis of the Irish Government’s anti-poverty campaign and defines a household as being in poverty if they have both low incomes and have a score of 1 or more on the deprivation scale.

While this is a practical approach, and eliminates many of the weaknesses of relying upon income alone, some limitations need to be borne in mind:

- If poverty is to be conceived of in a relative framework, the question of how to update the deprivation component of the scale needs to be addressed. That is, as the society becomes more affluent, what would have previously been considered as non-necessities, become essential items, the absence of which indicates deprivation.

- The scale continues to be based upon arbitrary decisions. This includes the income cut-off where in Ireland a relatively high level of 60 per cent mean was used; and the number of items on the deprivation scale a household needs to record before being considered to be deprived.
- The actual structure of the measure may change over time and not be consistent across social and other structures.

This last point is important in understanding why an approach such as that used in Ireland cannot be simply copied for Australia. In the statistical analysis underpinning the development of the Irish scale, questions such as second hand clothing or special meals (a roast or equivalent weekly) were closely associated with other 'hardship items' such as going without heating or meals; in Australia the analysis showed they were more strongly associated with issues such as not having holidays, nights out and leisure activities, all of which were not so closely associated with hardship in Ireland. This suggests that the experience of deprivation, and what constitutes it, in Ireland is different to that in Australia and hence the particular groupings of items used in the Irish 'consistent poverty' approach are not directly transferable.

The use of a high cut-off point (in Australia a 60 per cent mean cut-off would place some 25 per cent of the population within the income scope of the model) introduces some ambiguity into the policy framework. On one side it acknowledges that the issues of poverty go well beyond just very low income levels, while at the same time it maintains the conceptualisation of the mean income poverty line, reinforcing the view that the issue is simply one of income redistribution.

It also begs the question as to whether poor outcomes can simply be ignored if they are recorded by higher income households. Notwithstanding these problems, the focus on outcomes that is used in the deprivation approaches may open the way to much more productive debate and lead to an understanding of poor outcomes that can contribute effectively to social policy development. Analysis of this type, including trends over time, will be able to be conducted on a more systematic basis in future, with the inclusion of financial stress questions in the ongoing work program of the ABS and longitudinally in HILDA.

Summary

From its experience over many years in using and interpreting income poverty and income distribution data FaCS believes these measures have only a limited place in social analysis. They are not well suited for most policy purposes, and in particular for shorter-term policy and program development and evaluation.

The main reasons for this are:

- Reported current income, without taking account of resources including assets and capacities, as well as the value of non-cash assistance is a poor guide to individuals' economic well-being, let alone other aspects of well-being. Many people who report low current incomes are in fact doing quite well, while many with higher current incomes may be doing poorly.
- There are marked problems in maintaining high quality current information on income with existing data being subject to revision because of known problems. There is only very limited data presently available on income dynamics.
- Analysis is dependent upon a large number of technical decisions, many of which might be appropriately considered to be the responsibility of the informed analyst.
 - In this way there is scope for a wide range of different, but arguably valid, results to appear.

For these reasons, the Department believes that, while this type of analysis will continue to play a role in public debate, these measures are limited, and they are not well-suited as instruments for the direct assessment of social outcomes and of policy settings for government.

In contrast, the Department considers that alternative approaches such as deprivation, as well as longitudinal analysis of household incomes, offer much greater potential, although current data are

relatively limited. More importantly, it needs to be recognised that the measurement and quantification of outcomes are only a process step in the more critical question of understanding the causes of these outcomes. That is, the state of poverty is more often a symptom than an outcome or cause. Social policy development, while recognising such symptoms, must, over the longer term, ensure that the focus remains on addressing causes.

Part IV Summary

Chapter 6 Conclusion

The conclusion summarises the main issues identified in the chapters of the report.

It also highlights some key findings:

- That measuring well-being is complex, and that traditional income poverty measures are at best of very limited value.
- Understanding disadvantage needs to recognise a much broader set of issues, the importance of lifecycle and the extent to which adverse outcomes are often the product of multiple disadvantage, not simply income.
- The living standards of Australians have improved, in large part driven by the strong economic growth the nation has recorded.
- Demographic and other changes are exerting significant pressure and present key challenges.
- Central to these are continuing reforms to the structure of income support and promoting participation to reward those who make an effort to gain employment, and provide effective and secure support to those who cannot support themselves.

6. Summary

As outlined at the beginning of the submission, an inquiry into poverty has the potential to bring together an understanding of the range of, and trends in, social outcomes of Australians.

This submission seeks to contribute to this understanding by building up a detailed picture of the current impact of economic and social trends for Australians and the nature of the social policy response to issues of hardship and disadvantage. The introductory chapter aims to do this at a broad level, with each subsequent chapter exploring a particular aspect of the picture in greater detail. This chapter seeks to summarise the key findings of each of the chapters and to bring together the key messages.

Chapter one articulated a range of issues surrounding the concept of well-being, poverty and poverty measurement, and sought to provide some context for considering these issues from a social welfare perspective. The chapter outlined the Department's concerns with the pursuit of the traditional 'poverty debate'. It argued that this entails a limited focus on the uncritical analysis of data on reported household incomes and attention to income distribution-based measures of 'poverty' at a point in time.

The chapter identified broader concepts which are used in the poverty debate that not only focus on outcomes, but consider a much wider range of dimensions than income. These also recognise the importance of social and other structures providing for individual choice and responsibility. Such approaches provide a useful perspective for analysing outcomes and structures, but are much more difficult to quantify and measure.

The discussion emphasised that social outcomes result from a large number of public and private actions and cannot be seen as being solely the responsibility of government, or of any one level of government. It notes that effective social policy involves providing the opportunities for each of these components to work effectively and recognises that in some cases some policies can have unintended adverse outcomes.

The chapter introduced a number of the themes, such as the impact of demographic change and the role of economic growth and management, which are developed in subsequent discussion.

Chapter two sought to examine the relationship between lifecycle phases, social welfare and economic participation. It argued that social well-being is largely the product of lifetime economic participation. Therefore, adopting a life cycle approach, from childhood through youth, working-age and retirement, to supporting and maximising economic participation is a fundamental component of enhancing well-being.

The chapter found increasing evidence that disadvantage is not the result of any single factor. Rather, those with poor outcomes appear to face multiple levels of disadvantage. It also found that current income support programs leave many disadvantaged people on 'passive' payments, which have no formal participation requirements and/or offer little encouragement to seek work or improve work readiness.

At the same time the chapter emphasised the importance of a secure safety net to protect those who cannot support themselves.

Effective policy responses are not simple. However, the current consultations on working-age payments represent an important step towards developing a new approach. Chapter two argued that policy responses should not simply rely upon income support, but should include well-targeted and effective programs to assist people, especially those with multiple disadvantage, to maximize their capacity for economic participation.

Chapter three sought to provide background on the structure of the Australian social support system, and in particular, on the nature of income support payments. It explained that our income support system is unusual, and contrasts with that of many other countries, in being funded from general revenue rather than on a contributory or 'social insurance' basis. People can therefore receive income support without ever

having had an employment history, and payments are available for an indefinite period, provided eligibility conditions continue to be met.

The chapter argued that it is inappropriate to consider income support payments in isolation from other components, such as earnings and taxation, or the impact of services and concessions. Many income support recipients, particularly those with families, are able to combine substantial amounts of paid work with income support and/or family payments. In addition, many income support recipients are eligible for a wide range of services and concessions, which act to lift household living standards and tackle many of the dimensions of disadvantage beyond the need for financial support.

Nonetheless, Chapter three acknowledged that the current system, while comprehensive, is unnecessarily complex, and that in many cases incentives are neither significant nor consistent. The complexity of the system and the pattern of incentives are some of the issues under consideration in current consultations on working-age payments.

Chapter four reported on trends in employment, unemployment and earnings, and showed how these have resulted in changes in household incomes and income distribution. It also sought to demonstrate how the effectiveness of social support programs is dependent on the strength of the domestic economy.

It found evidence of strong economic growth in the second half of the 1990s, leading to significant increases in employment and earnings. Unlike earlier growth periods, these increases are quite broadly based across regions and industries. Indeed it suggests that much analysis which is based upon the experience of the 1980s and first half of the 1990s does not well inform an understanding of the impact of current economic and social outcomes.

The chapter also reported on the strength of full-time employment growth and the gains in employment in many industry sectors. It also found strong earnings growth at the top, middle and bottom of the earnings distribution. While employment and earnings growth have impacted on the distribution of household income, Chapter four argued that issues of data quality are such to limit the capacity for any detailed interpretation of changes to be undertaken. However, regional analysis indicates that growth in incomes has been widespread and has benefited poorer as well as richer locations.

Chapter five sought to provide a brief summary of some of the technical issues that arise in using measures of poverty and to identify some of the areas of contemporary debate.

Chapter five argued that poverty measures based on income poverty and income distribution data have only a limited place in social policy analysis. It suggested that these measures are not well suited for most policy purposes, and in particular, for shorter-term policy and program development and evaluation. The chapter indicated that alternative approaches such as deprivation, as well as longitudinal analysis of household incomes, offer much greater potential for analysis, although current data are relatively limited. It also pointed out the importance of recognising that the quantification of outcomes is only a process step in the more critical question of understanding the causes of these outcomes. It suggested that the state of poverty is more often a symptom than the cause of disadvantage and that social development must, over the longer term, ensure that the focus remains on addressing the causes of disadvantage.

In summary, this submission has endeavoured to discuss social outcomes, including hardship and disadvantage in a way that reflects the recognised facts that income 'poverty' is not a good predictor of need, that measurement is sensitive to data quality and many relative arbitrary decisions and that a narrow focus on this approach ignores the dynamics of Australian life and the many factors which contribute to well-being.

What is beyond doubt is that living standards have improved across a very wide range of groups in Australian society. This is largely as a result of significant and well-distributed increases in employment and earnings. Increases in income support rates and taxation reform have complemented this to generate real increases in the disposable incomes of families on low and middle incomes.

The capacity for further improvements in living standards requires Australian society to face a number of challenges, including the impact of demographic change. This will put significant pressure on the labour

market, the capacity of governments to meet the demands for expenditure and for individuals to make provision for their retirement.

Demographic changes are leading to an increasingly large population aged over 50, and many of these older working-age, and other large groups of working-age, income support recipients receive payments that do not require active job-search. This can result in many of those who do have the capacity to engage in some activity remaining on income support for very long periods of time with little, if any, encouragement to participate in employment. For individuals, the financial consequences of long-term dependence on income support receipt can be serious, both in the short-term and also in retirement.

The Department, in the context of the Government's Welfare Reform Agenda, is seeking to implement initial program responses to these pressures, and undertake consultations on the options for reform of income support for people of working-age.

The goals of this include to lessen the complexity of the system and to improve incentives to work for those who can, while providing protection and support to those unable to do so.

FaCS is also committed to providing a wide range of services that address some of the many aspects of disadvantage that people can face, with the aim of helping people to realise their potential for economic participation. This includes a recognition that early intervention may be very important to address the incidence and impact of multiple disadvantage. The submission has argued that the income support and services FaCS provides complement a wide range of personal, family and community investment, such as education and training, superannuation savings and home ownership, as well as the impact of a growing economy in producing opportunities for participation and improving well-being.

Attachments

Attachment A: Poverty and Inequality Studies

Attachment A: Inequality and Poverty Studies

Inequality Studies

| Study | Income Concept | Period | Data Source | Main Results |
|---------------------------|--|--------------------|--|--|
| Bradbury and Doyle 1992 | Cash disposable income, equivalised | 1983–84 to 1989–90 | Microsimulation, IDS | Gini increased from .367 to .370 |
| Gregory 1993 | Individual gross earnings, not equivalised | 1976 to 1990 | Weekly Earnings of Employees (WEED) | Growth in low paid and high-paid jobs - the 'disappearing middle' |
| Saunders 1993 | Cash disposable income, equivalised | 1981–82 to 1989–90 | IDS | Gini increased from .27 to .29 |
| Harding 1994 | Gross income, equivalised | 1981–82 to 1989–90 | IDS | No change in Gini |
| Raskall and Urquhart 1994 | Social wage income (health, schooling), equivalised | 1982–83 to 1989–90 | Microsimulation, IDS | Gini increased from .272 to .276 |
| Whiteford 1994 | Cash disposable income, equivalised | 1982–83 to 1989–90 | Microsimulation, IDS | Gini fell from .328 to .319 |
| Gregory and Hunter 1995 | Gross household income of areas, not equivalised | 1976 to 1991 | Census | Gini increased from .14 to .18; incomes fell for low-income areas between 1976 and 1981 and rose for rich between 1981 and 1991 |
| Harding 1995 | Social wage income (health, education, housing, child care), equivalised after housing | 1994 | Microsimulation, IDS | Gini for cash disposable income of .308, for final income of .289 |
| Johnson et al. 1995 | A. Cash disposable income, equivalised B. Social wage income (health, education, housing, child care, concessions), equivalised | 1981–82 to 1993–94 | Microsimulation, HES | A. Gini fell from .308 to .296 B. Gini fell from .255 to .226 |
| OECD Atkinson et al. 1995 | Cash disposable income, equivalised | 1981–82 to 1985–86 | IDS | Gini increased from .287 to .295; P90–P10 fell from 4.05 to 4.01 |
| ABS 1996 | Final income (social wage plus indirect taxes), not equivalised | 1984 to 1993–94 | Household Expenditure Survey (HES) | Q5–Q1 increased from 4.5 to 4.7 |
| Borland and Wilkins 1996 | Individual gross earnings, not equivalised | 1975 to 1994 | WEED; Income Distribution Survey (IDS) | Real weekly earnings of males fell at 10th percentile and rose at 90th percentile |
| ABS 1999 | Gini - gross income of income units | 1994–95 to 1997–98 | IDS | Income distribution of all income units almost unchanged. Gini of .446 not significantly different from that of previous years |
| Barrett et al. 1999 | Consumption inequality | 1975 to 1993 | HES | Income and consumption inequality both rose, income inequality grew much more than consumption inequality |
| Lloyd et al. 2000 | Mean income by location | 1986 to 1996 | Census | Income of metropolitan residents increased double the rate of those in major urban centres and regional towns. Between 1991 and 1996, rural towns had the largest increase |

| | | | | |
|---------------|---|-----------------|---|---|
| Saunders 2001 | Wage and salary, market income, gross income, disposable income and equivalent disposable | 1990 to 1999–00 | IDS, and Survey of Income and Housing Costs | Wage and salary Gini increased from 0.224 in 1990 to 0.275 in 1999–00. Market Gini rose from 0.543 to 0.572. Gross Gini rose from 0.427 to 0.445. Disposable Gini rose from 0.375 to 0.391. Equivalent disposable Gini rose from 0.330 to 0.346. Australia 6 th most unequal country out of 20 in 1995 |
|---------------|---|-----------------|---|---|

Poverty Studies

| Study | Poverty Concept | Period | Data Source | Main Results |
|--|--|-----------------------|-----------------------------------|--|
| Saunders 1990 | A. Henderson, CPI B. Henderson, HDIPC | 1982–83 to 1989–90 | Microsimulation, IDS | A. Poverty rate fell from 8.9% to 6.5% B. Poverty rate rose from 8.9% to 11.6% |
| Saunders and Matheson 1991 | Henderson, HDIPC | 1981–82 to 1989–90 | Income Distribution Survey (IDS) | Poverty rate rose from 9.2 to 12.8% |
| Bradbury and Doyle 1992 | A. Henderson, CPI B. Henderson, average survey income | 1983–84 to 189–90 | Microsimulation, IDS | A. Poverty rate fell from 11.3% to 9.4% B. Poverty rate rose from 11.3% to 11.4% |
| Harding and Mitchell 1992 | 50% of median income | 1981–82 to 1989–90 | IDS | Poverty fell from 11.0% to 9.5% |
| Mitchell and Harding 1993 | 60% of median income, poverty gap | 1981–82 to 1989–90 | IDS | Poverty gaps stable or falling slightly |
| Saunders and Matheson 1993 | 50% of median income | 1981–82 to 1989–90 | IDS | Poverty rose from 9.3% to 9.4% |
| Saunders 1994 | Henderson, HDIPC | 1981–82 to 1989–90 | IDS | Poverty rose from 10.7% to 16.7% |
| Harding 1995 | 50% of median income, before and after the ‘social wage’ | 1994 | Microsimulation, IDS | Poverty substantially reduced by ‘social wage’ (from 12% to 4% for couples with children) |
| King and Landt 1996 | A. Henderson, all costs B. Henderson, after housing costs | 1995 | Microsimulation, IDS | A. Poverty at 11.8% B. Poverty at 9.2% |
| OECD 1996 | 50% of median income | 1981–82 to 1989–90 | LIS, IDS | Poverty rose from 14.4% to 16.1% |
| ABS 1998 | A. Henderson B. Half median | 1995–96 | Income survey - income units | A. 20.5% income unit, 21.5% children B. 10.2% income unit, 12.2% children |
| King 1998 | Henderson, HDIPC | 1972–73 to March 1996 | Income survey and microsimulation | 1. Very poor rose from 12.5% to 16.7% 2. Rather poor rose from 20.6% to 30.4% 3. Extremely poor fell from 3.9% to 3.3% |
| OECD 1998 | 50% of median income | 1975 to 1994 | HES | Poverty fell from 11.9% to 9.5% |
| Bradbury and Janti 1999 (UNICEF/Innocenti) | A. 50% median income B. US poverty line | 1994 | HES, LIS | A. Child poverty rate 17.1% - 5th highest for industrialised countries B. Child poverty 20.7% - 11th highest |
| Harding Szukalska 1999 | Henderson, half mean, half median | 1982 to 1995–96 | Income survey and microsimulation | Child poverty (half median) fell from 13.6% in 1982 to 8.0% in 1995–96 |
| Forster and Pellizari 2000 | 50% and 60% median income | 1975 to 1994 | HES | Poverty and Gini rose between mid 70s and mid 80s and fell to mid 90s |

| | | | | |
|---|--|--------------------|-------------------------------------|---|
| Harding and Szukalska 2000 (The Smith Family) | Range of measures before and after housing poverty | May 1999 | Income survey with limited updating | Total poverty rates between 9.6% and 20.5%, child poverty 9.3% to 26.8%. Half mean poverty fell from 14.6% in 1982 to 13.3% in 1999 |
| Harding Szukalska 2000 | Henderson, half mean, half median | 1982 to 1997–98 | Income survey and microsimulation | Child poverty fell by 1/3 from 1982 (13.1% half median) to 1996–97 (7.3% but then increased in 1997–98 (8.8%) - HPL showed rise over period |
| Harding, Lloyd and Greenwell, Nov 2001 | Half mean, Henderson equivalence scale | 1990-2000 | Income surveys | Poverty increased over the decade from 11.3% to 13.0%. |
| Smeeding, May 2001 | (a) Official US poverty line and equivalence scales, OECD purchasing power parities (b) 40% median, equivalence scale is square root of family size | 1994 | Luxembourg Income Study | (a) 17.6% - the highest of 11 listed OECD countries (b) 7.0%, ranked third highest of 19 rich countries |
| ABS Measuring Australia's Progress, 2002 | (a) Half mean, (b) half median, using OECD equivalence scale | 1994-95 to 1997-98 | Surveys of Income and Housing Costs | (a) Increase over period from 18.7% to 19.6% (b) Increase from 8.4% to 8.6% (not statistically significant) |

Source: Whiteford and Angenent, updated by FaCS

Endnotes

¹ For example, Sen stated “Indeed it could be argued that only in the absence of direct information regarding the satisfaction of the specific needs can there be a case for bringing in the intermediary of income, so that the income method is at most a second best.” (Sen 1982 in Mack, J. and Lansley, S., *Poor Britain*, 1985). Ringen also stated that “The relative deprivation concept of poverty is a direct concept: poverty is understood as visible poverty, that is, a low standard of consumption.” (Ringen 1988).

² Internationally this finding has been reflected in the criticisms of Ringen and others as cited above. Australian analysis includes that reported in *Hardship in Australia* (Bray 2001).

³ In taking this stance FaCS notes that such improvements in living standards need to take account of the environmental and social outcomes in addition to achieving economic growth. Components of this of particular relevance to FaCS are the need for families to achieve an appropriate balance between their work and family responsibilities and the contribution that stronger communities make to household living standards.

At the same time, reflecting the policies of successive governments, and overall community aspirations, FaCS rejects arguments that economic growth and the resulting improvements in living standards reflect a consumerist treadmill that does not improve overall welfare.

⁴ Ian Castles, an Australian statistician and economist, has published various critiques of the UN Human Development Reports and the Human Development Index. Castles’ critiques ranged across many aspects including: the need for accuracy, consistency and sound methodology in the selection and use of statistics for assessing progress and poverty reduction over time within particular nations (including the ‘marginalisation’ of particular countries); the comparison of levels and direction of poverty and human development between nations, the comparative rates (collectively) of social and economic progress of developed and developing nations; and the limitations and dangers of using single composite indexes – specifically the Human Development Index – rather than a range of relevant indicators for assessing human and societal development. The Human Development Index was a ‘summary’ index derived from three components: indicators of human longevity, education retention rates, and income per head (itself related to GDP). Underlying its development was a concern that ‘narrowly economic’ indicators such as GNP or GDP alone failed to capture (qualitatively) important social dimensions.

⁵ Assuming earnings are spread equally over the year.

⁶ This type of confusion is unfortunately very common in analysis. For example Borland, Gregory and Sheehan (2002) cite the number of households of working-age in receipt of social security payments as “a clear indicator both of broadening social problems and the impact of economic events on the social fabric” without reference to the extent this may have been driven by family payments. Similar analysis has been done by Birrell, Maher and Rapson.

⁷ This is sourced from FaCS modelling, and assumes that the two children are aged under five years, the family is not renting privately, and the income earner receives Male Total Average Weekly Earnings (MTAWE).

⁸ Youth jobless rate refers to persons aged 15-24. These figures are only available in the original series, and so February 1996 is compared to February 2003 to avoid problems with seasonality

⁹ Annual averages.

¹⁰ Male full-time ordinary time average weekly earnings.

¹¹ These figures are higher than those used in the IGR as they include a number of smaller payments which were not incorporated into the IGR projections.

¹² Family payments refer to the range of assistance provided to help with the additional costs faced by families with children. It has operated under several different names since its inception and is currently known as the Family Tax Benefit. The payment has a generous income and asset test, such that for the purposes of the quoted research, all but 15 per cent of the relevant birth cohort were eligible for inclusion in the study.

¹³ Teenagers include those aged 15 to 19 years.

¹⁴ In July 2002 20.9 per cent of 15 to 19 year olds were in the full-time labour market (original series); ABS 6203.0 July 2002.

¹⁵ An analysis comparing lone mothers receiving income support with those not receiving income support appears to indicate that lone mothers receiving income support generally have poorer outcomes than those not receiving income support across the range of barriers included in the table. However, lone mothers overall, whether or not receiving income support, appear to have poorer outcomes than partnered mothers for many barriers, and in particular for traumatic life events. Over 40% of both income support and non-income support lone mothers experienced a 'traumatic life event', compared to less than 25% for both groups of partnered mothers. This additional analysis has not been included in the text as the sample of non-income support lone mothers was quite small.

¹⁶ As at June 2002, there were 523,872 people receiving Newstart Allowance and 87,304 people receiving Youth Allowance who were not classified as full-time students, according to the FaCS Annual Report 2001-02.

¹⁷ Figures based on 2001 Census data. 'Not stated' responses were excluded prior to the calculation of percentages. Unless otherwise stated, proportions are of the relevant population aged 15 and over. In calculations of employment data, participation in Community Development Employment Projects has been treated as 'employment'. 'Occupation' data refer to the proportion of all employed people, aged 15 and over, in the relevant population, employed in specific occupations. Populations for tenure type (renting and home ownership) are based on households, not individuals. The 'families with children' data show the number of sole parent families with dependent children in the relevant population as a proportion of all families with dependent children in the relevant population. Dependent children include children aged under 15 and dependent students aged 15 to 24.

¹⁸ 'Multiple hardship' has been outlined earlier, and is discussed in depth in Bray (2001). The results for migrants are shown on p88 of that reference.

¹⁹ ABS 6203.0, Labour Force, December 2002, p43. Note that the results for Germany, Greece, Italy and the Netherlands have a relative standard error of 25% to 50%.

²⁰ This includes the age pension, service pensions and other income support supplements.

²¹ The effective retirement age '... has been calculated as a weighted average of the various retirement ages where the weights are the probability of (net) withdrawal from the labour force at these particular ages.' (OECD, Employment Outlook, No. 72, 2002)

²² Centrelink Administrative Data June 2002

²³ FaCS estimates from Longitudinal Data Set.

²⁴ All rates are current for the first quarter of 2003.

²⁵ Tax returns are however only lodged by some 60 per cent of payers. It is therefore likely that some non-lodgers have low incomes, and that in many cases this is as a result of their receipt of income support with no supplementary sources of income.

²⁶ Figure 15 shows unemployment as measured by duration since last full-time job.

In April 2001 the definition of duration of unemployment changed to refer to 'the period of time since a person last worked in any job for two weeks or more, regardless of whether it was full-time or part-time.' (ABS cat. no. 6295.0) The questionnaire still collects data on duration of unemployment since last full-time job, allowing the time series data in Table 21 to maintain some continuity, however, other changes, including a redefinition from unemployed to employed of certain groups of people on unpaid leave, mean that data collected from April 2001 onwards are not strictly comparable with data collected in earlier periods.

²⁷ The long-term unemployment figures differ from the numbers of people receiving unemployment payments for long periods. Nevertheless, the present favourable economic conditions and lower unemployment rates compared to the early 1990s are accompanied by a decline in the number of unemployed people on income support for a year or more. Between May 1999 and May 2002, the number of these customers dropped from 426,332 to 388,091. However, the number of unemployed people with income support durations of five years or more increased from 75,817 in May 1999 to 107,461 in May 2002. These figures are very difficult to interpret; unemployed income support recipients can have periods of full-time employment with no income support for periods of up to 25 weeks and still be regarded as long-term unemployed for the purposes of the administrative system, as documented in OECD 2001, *Innovations in Labour Market Policy: the Australian Way*, p185.

²⁸ Figures obtained from ABS (6224.0) Labour Force Status and Other Characteristics of Families (1980-2000) and Labour Force 6291.0.40.001 companion data cubes (2001-2002). The indicator “children without an employed parent” presented under the economic disadvantage dimension shows substantial volatility over time that is not significant. The series is derived as a by-product from processing the ABS Labour Force Survey. However, the weighting applied in the production of the labour force estimates does not benchmark to the number of children in households in Australia (it is not required for labour force estimation purposes). One result is that much of the variation from year to year in the by-product series generated for children in households without an employed parent simply reflects variation in the coverage of all children in Australia.

²⁹ FaCS modelling using Longitudinal Data Set 1% sample 2001.

³⁰ March to March comparisons are used for reporting changes in the labour market experience of youth as the data are highly seasonal and ABS do not publish seasonally adjusted estimates.

³¹ Refer also to discussion on page 89 concerning some of the limitations of these comparisons given the extent of variation in employer contributions for social insurance.

³² Data equivalised using revised OECD equivalence scale. To enhance comparability over time negative income from own business and property investment has been set to zero at the person level for data since 1994-95. In addition where an imputed tax liability exceeds household income the resultant income has been treated as a zero and not a negative amount.

³³ Data comparability over this period is affected by three main factors:

- a) The basis of ‘benchmarking’ of the survey has been changed. Some analysts such as NATSEM have considered this to be a severe enough issue for them to re-estimate the survey weights for their analysis.
- b) ABS have changed the way in which they have treated negative incomes; while these were collected in 1990 such negative components were not used in the calculation of household income; in the later surveys the data were collected and used in estimating incomes. While conceivably this difference in approach can be overcome in analysis by applying inclusion or exclusion across the whole time period (as has been done in Table 7) this is not a comprehensive response to the problem as it appears that the 1990 data have some marked outliers in the distribution of negative incomes. It is likely that this has arisen as a result of less rigorous reviewing by ABS of these results in the earlier survey where the data were not actually used to determine the actual estimates of income. The impact of this can be seen in comparing three estimates of the changes between 1990 and 1994-95, firstly using the methodology as adopted in each of the years and the basis on which data have been published, the second based upon the 1994-95 methodology, and the third using the 1990 approach. For ‘all households’ these three approaches give estimates of income growth of 3.7 per cent, 4.9 per cent and 4.2 per cent; for lowest quintile households the rates are: 7.4 per cent, 8.3 per cent and 4.2 per cent.
- c) ABS changed their survey methodology, including no longer asking people to extract pay and other records prior to interview, relying rather on people’s ability to remember income details.

³⁴ Statistical Local Areas are a geographic classification used by the ABS. They are either complete or partial local government areas.

³⁵ It is important to distinguish between relative income **poverty** and income **inequality**. The former can be thought of as being concerned with the position of those on low incomes vis-à-vis the bulk of society, while the latter is concerned with the relative income levels of all groups in the society. Thus an increase in the incomes of the top 1 per cent would generally be thought to increase inequality without significantly increasing relative poverty, although the half mean approach would suggest that it did.

³⁶ The US currently uses two different poverty lines: one for statistical purposes and the other for program purposes. The lines are however quite similar. The Census – or Orshansky line is based upon three times the cost of a minimum food budget.

³⁷ The initial research undertaken by Townsend into deprivation measures was largely directed at trying to derive such a point empirically. Townsend hypothesised that while it would be expected that deprivation had an inverse relationship with income, at some point the relative incidence of deprivation would increase rapidly as income fell and that this would establish a poverty line. It is generally considered that he, and subsequent researchers, have been unsuccessful in identifying such a point.

³⁸ Disposable income, OECD revised equivalence scale and negative incomes set to zero at the person level.

³⁹ Disposable income, OECD revised equivalence scale, negative incomes set to zero at the person level and imputed tax greater than income set to equal income.

⁴⁰ While some of the items, such as increased housing wealth, can lead to higher levels of household consumption, taking this into account can only be done in much more sophisticated modelling which allocates estimates of flows of benefit from imputed rent, etc. This type of analysis is rarely ever done using the HPL.

⁴¹ In statistical terms the shape of the income distribution is usually considered to approximate a log-normal distribution.

⁴² The Sen index is the average of the headcount and poverty gap measures, weighted by a Gini that treats the poor as the whole population. Formally, it is expressed as:

$$P_s = P_0\gamma^p + P_1(1 - \gamma^p)$$

where P_0 is the headcount ratio, P_1 is the poverty gap, and γ is the Gini coefficient. Foster, Greer and Thorbecke's measure is a generalisation of the poverty gap measure. Formally, it is expressed as:

$$P_\alpha = \frac{1}{N} \sum_{i=1}^N \left(1 - \frac{x_i}{z}\right)^\alpha \mathbf{1}(x_i \leq z)$$

where x is the measure of living standards, z is the poverty line and α is some positive parameter, typically $\alpha=2$ (Deaton 1997, Chapter 3).

⁴³ Given this, and other factors, it is often argued that zero and negative incomes should be deleted from such analysis, for example DeFina and Thanawalla, 2002. While offering a partial solution such approaches are essentially arbitrary as the question of data validity is as much an issue for many other households with very low, but positive, incomes. That is, the arguments for deleting a household say with \$1 a week income would seem to be as valid as excluding one with zero weekly income.

⁴⁴ Lancaster and Ray looked at various types of income pooling, and tested them on Australian household income and expenditure data. The results supported income pooling for some items but not for others, and found that income pooling across gender appeared much less likely for old people than younger ones.

Lundberg, Pollak and Wales carried out a natural experiment analysis of a UK policy change, which transferred a substantial child allowance to wives in the late 1970s. They found strong evidence that a shift toward greater expenditures on women's and children's clothing relative to men's clothing coincided with this income redistribution.

⁴⁵ This type of result is also reported by Ann Harding (1993).

⁴⁶ The main exception to this near consensus comes from analysts using a rational choice framework. In this framework it can be argued that the decision of a couple to have a child is based on a belief that this will increase their overall level of welfare. That is, the couple decides that the benefits of having a child, including the happiness this provides them, outweigh the cost of the child. Similarly if a couple decide to separate, this is based on decision that they would be better off living by themselves. The use of equivalence scales in both these cases would suggest a reduction in well-being or welfare. Using the OECD scale for example having a child would reduce the apparent welfare of the household by 17 per cent = $(1+0.5)/(1+0.5+0.3)$, while, assuming the separation had no impact on incomes of either of the members, both of whom earn the same amount, the use of equivalence scales would suggest that they are both only 75 per cent as well off as they were when they were living together.

In part this type of example reflects the significant limitations in using income as a measure of well-being, and the importance of understanding the counter-factual case. In addition it needs to be noted that the judgements in the case of the couple having a child simply reflect the change in well-being of the couple, and not the child itself.

⁴⁷ There is considerable variation in age cut off for a child in different analyses.

⁴⁸ The main simplification of the scale was undertaken by Henderson himself; the major changes were to remove the gender-specific rates for children and the age-variant rates for both children and adults (Henderson 1975, pp 355-6).

⁴⁹ Refer Bray 2001; more detailed discussion on the results of analysis of this survey are presented in discussion on deprivation and hardship.

⁵⁰ For this table: Income support figures from Centrelink's *A Guide to Commonwealth Government Payments, 20 March – 30 June 2002*; Henderson Poverty Line estimates for single and couple adults (with exception of 'sharers' and Austudy recipients) from Melbourne Institute of Applied Economic and Social Research's *Poverty Lines: Australia, June Quarter 2002*, all other Henderson Poverty Line estimates derived by FaCS; 50% mean and median estimates based upon 1997-98 income data (ABS 2000c), adjusted for CPI changes.

Income support figures include the following assumptions: pharmaceutical allowance has not been included; individuals are receiving maximum rate of payment; students are receiving the 'independent' rate of Youth Allowance; the first three children in any family are under 13 years of age; the fourth child in a family is aged between 13 and 15; the youngest child is under 5 for families of three and four children and over 5 for families of one and two children.

⁵¹ In June 2002, only 23.3% of income units receiving qualifying income support payments received Rent Assistance. (Data Source: Housing File, FaCS, June 2002.)

⁵² It is generally considered that the degree of under-claiming for income support payments is low. It is very difficult to quantify take-up, even for programs where the major eligibility criteria are family composition, gender or age, and much more so where eligibility is determined in more complex ways, such as Disability Support Pension or Newstart Allowance. A major reason people fail to take up an entitlement is because their payment level would be very low, and they do not consider it worth the effort. This could be true of significant numbers of people without being significant in monetary terms.

⁵³ The major exceptions are those that quote child poverty rates only, which often use the Innocenti report as their source. In this study the researcher used his own estimates, directly derived from slightly later 1996-97 ABS data. It is not clear to what extent this data had been revised to maintain consistency with the edits undertaken by LIS to other countries. One important difference was that for Australia weekly data were used, whereas other nations were assessed on the basis of annual data.

⁵⁴ These are the results currently posted on the LIS internet site as key figures (www.lisproject.org/keyfigures). Two series of data are available, poverty estimates for adults, children and persons using poverty lines from 40 per cent to 60 per cent of median income, and inequality estimates using the Gini Coefficient, two Atkinson estimates and three percentile ratios. Estimates are provided for each of the surveys that LIS holds.

⁵⁵ The compulsory employer superannuation contribution since 1992 is of course equivalent to a social insurance tax, albeit at a much lower level than in most European countries.

⁵⁶ One claim, which has had some currency in arguments that lower levels of inequality should be sought, was an apparent association between the rate of inequality and health outcomes. These were reviewed in the January 2002 British Medical Journal, along with a review article which concluded, "It has recently become clear that the findings in [Wilkinson's] paper were an artefact of the selection of countries. Now that good data on income inequality have become available for 16 western industrialised countries, the association between income inequality and life expectancy has disappeared...the evidence for a correlation between income inequality and the health of the population is slowly dissipating." (Mackenbach 2002)

⁵⁷ This approach reflects the welfare economics approach of declining marginal utility of money. That is, an additional dollar will produce higher welfare for a poor person rather than a rich person. From this it can be argued that, under equal individual utility curves, income equality would maximise welfare. This though assumes a fixed amount of income across the society. Since it would involve the heavy transfer of income from those with the capacity to gain higher incomes, these would have no incentive to earn above the average, as they would gain little or nothing for their effort. This would in turn lower the total income of the society – and hence risk a loss in welfare for everyone. Hence the concept of 'optimal' tax theory – how far can redistributive taxes go in improving welfare before they act as a disincentive and generate a loss to total welfare.

⁵⁸ The General Entropy measure with $\alpha=2$ becomes half the squared coefficient of variation.

⁵⁹ In such cases the two Lorenz curves will cross over each other and what is called 'Lorenz dominance' is not obtained, so it is not possible to draw any conclusion about the relative state of inequality.

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