

# Getting Poverty Back onto the Policy Agenda

PETER SAUNDERS\*

The dying embers of a national poverty debate have been re-kindled by the recent criticism from a group based at the Centre for Independent Studies (CIS) (Tsumori et al 2002) of the latest Smith Family report on poverty in the 1990s produced by researchers at the National Centre for Social and Economic Modelling (NATSEM) (Harding et al 2001). The media was quick to seize on the CIS claim that 'the extent and nature of the poverty problem had been hugely exaggerated', a claim that was echoed in an editorial in *The Australian* titled 'The danger in exaggerating our poverty' that followed the release of the CIS study.<sup>1</sup>

The episode left many people with the impression that the 'welfare sector' had been caught distorting the poverty figures for self-serving purposes. More poverty puts more pressure on government to do something about it and this is likely to involve more funding for organisations like The Smith Family (and NATSEM) who monitor the poverty trends and respond to its effects. This argument, while superficial to the point of naivety, is hardly a good basis on which to re-engage with the poverty debate.

In addition to the 'headline' poverty figure that has featured in this debate, The Smith Family report provides a range of alternative estimates. These allow the robustness of the estimates to changes in the methods used to derive them to be assessed, and ensure that poverty research is open and transparent. Unfortunately, this can also convey the impression that the poverty rate could be anywhere, and provides ample ammunition for bodies like the CIS to attack the estimates for being arbitrary. However, the fact that the CIS relied entirely on the statistics presented in The Smith Family report illustrates the value of the approach in promoting debate on the underlying issues.

## The Median or the Mean?

Several astute statistical points are made in the CIS report. The most telling is that by using a poverty line linked to one-half of mean income (rather than one-half of median income) The Smith Family report shows that the extent of poverty as well as the degree to which it increased over the 1990s is higher. The first claim is undeniably correct because the distribution of income is highly skewed towards those with low incomes, mean income (the average) will always be higher than median

income (the income that separates the distribution into two equal halves). It follows that a poverty line based on a proportion of mean income will be higher than one based on the same proportion of median income and thus that poverty will always be higher when the mean income measure is used.

However, it does not follow from this that a poverty line based on median income is the preferred measure. One needs other arguments to justify choosing between the mean and median based poverty measures and ultimately, a judgement about which is best overall. NATSEM researchers have argued that the half-average income poverty line 'better captures relative deprivation in times of rising income inequality. As the top income earners become better off, then the poor are relatively worse off' (Harding et al 2001:2). It is this claim that the CIS report is most critical of and while there is no evidence to support it, it reflects a judgement about the nature of modern poverty that many will agree with. The CIS criticism thus comes down to a disagreement over the judgements on which the poverty line is based. Most poverty researchers prefer to link the poverty line to median income rather than mean income, on the grounds that the median is a better representation of the middle of the distribution. Mean income is also more sensitive to extreme values – very high and very low incomes – that are often mis-reported or not captured in the income statistics that are used to estimate poverty.

But the CIS report also contains a number of significant errors and misunderstandings about how poverty research is actually conducted and the data that are used. Table 1 identifies seventeen such errors. If instead of relying on the estimates contained in The Smith Family report, the CIS authors had derived their own estimates of poverty, they might begin to have a better appreciation of some of these technical issues.

The CIS claim that the use of a poverty line linked to mean income over-estimates the increase in poverty over the 1990s is confirmed by the estimates presented in The Smith Family report, which indicate that, using a half-mean income poverty line, the national poverty rate increased from 11.3 per cent to 12 per cent between 1990 and 1996 and rose again to 13 per cent by 2000.

1. *The Australian*, 17 January, 2002, p.10

In contrast, if the median income based method is used, the poverty rates in these three years are 8.2 per cent, 8.6 per cent and 8.7 per cent. Both measures show rising poverty but the extent of the rise over the decade (and since the Howard Government came to office in 1996) is much greater when the half-mean income poverty measure is used.

## Statistics and Judgements

In order to choose between a poverty line linked to mean income and one linked to median income, it is necessary to take a view about the nature of poverty - about how poverty is defined, as well as how it is measured. The essential feature of poverty is the inability to meet basic needs and thus to be denied any choice over how to allocate resources (Saunders 1997a). Neither mean nor median income alone provide any information about how well needs are being met, although in the absence of such information, a poverty measure based on median income is the best poverty measure in my judgement.

These last three words are important. They emphasise the fact that some kind of judgment has to be made when measuring poverty. This does not mean that any measure of relative poverty is completely arbitrary, as the CIS report claims. Some judgements are better informed than others and poverty research must rely on the best that is available – not only the best statistics and the best research techniques, but also the best value judgements.

## Poverty and Inequality

The CIS report makes the point that, over the course of the 1990s, much of the increase in income inequality in Australia reflects the growing affluence of the rich – those who were already at the top of the distribution. Distributional studies bear this out (Barrett et al 2000; Saunders 2001). The CIS authors argue that it is this trend that underlies the 'rising tide' of poverty uncovered in The Smith Family report. They further point out that the average real (price-adjusted) incomes of those below the poverty line increased by \$38 a week between 1990 and 2000. This compares with the increase in mean income over the period of \$66 a week, in median income of \$37 a week and in the income of the person at the 95th percentile (5 per cent from the top) of \$172 a week. The CIS report concludes that both the rich and the poor got richer over the 1990s, but that poverty did not rise because the real incomes of the poor increased. However, the fact that the absolute (real) incomes of the poor increased does not necessarily contradict the claim that poverty rose, if one accepts that poverty is relative.

The CIS report claims (p. 1) that 'the concept of relative poverty has more to do with inequality than poverty'. This claim is all the more surprising since one of the CIS authors (Helen Hughes) has recently argued the opposite. In an article published in 2001, Hughes argues (correctly) that relative poverty is what matters for rich industrial countries like Australia but that; 'It is particularly important to note that poverty is not a function of income distribution. Poverty could be eliminated even though income distribution widened' (Hughes 2001:18). In trying to resolve the apparent

contradiction between these two positions, the recent CIS report argues that it is in their operationalisation of the concept of relative poverty that the NATSEM researchers have erred. There is an element of truth in this claim, but to argue that the resulting concept of relative poverty is 'completely arbitrary' as is claimed in the CIS report shows that its authors do not have a firm grasp of what is involved in developing a poverty line.

## Absolute and Relative Poverty

Beneath this confusion lies the idea that 'real' poverty (as opposed to the statistics manufactured by the social scientists who study poverty) should be defined in absolute terms. The CIS authors claim that most people in this country think of poverty as 'not having enough food to put on the table', 'not having anywhere to live', 'being unable to buy clothes for your children', and so on. They cite no evidence to support this claim, though they could have. Research reported in the SPRC Newsletter in 1997 indicates that most people (well over three-quarters of those surveyed) think that poverty involves not having enough to buy basics like food, housing and clothing and having to struggle constantly to make ends meet (Saunders 1997b). This finding has since been confirmed by results from a second survey conducted by SPRC researchers in 1999 (Saunders et al 2000).

However, the CIS report argues (p. 2) that 'these commonsense definitions [of poverty] all relate to an absolute conception of poverty'. This does not follow. The evidence indicates that most people think of poverty in subsistence terms, but that is not the same as supporting an absolute definition of poverty. A subsistence notion of poverty emphasises that poverty is a situation where basic needs cannot be met, but this is perfectly consistent with the goods (and services) that are required to meet those needs being defined relatively – in the sense that they will depend on the general life styles, living standards and values of the community at a particular point in time.

This point is illustrated by the fact that both the United States and Russia have 'absolute' poverty lines that are designed to support a given minimal level of living and are adjusted over time in line with rising prices. However, the US poverty line is way above the Russian line – so much so that child poverty in Russia rises from around 30 per cent if the Russian poverty line is used, to 98 per cent if the US poverty line is converted to roubles and then used (Bradbury 2002). The reason why the US poverty line is so much higher is, of course, because general living standards in the US exceed those in Russia – illustrating the point that what constitutes a minimum standard of living depends on what is customary or normal in specific circumstances. Even 'absolute' poverty lines thus end up being relative!

Despite this, the CIS continues to insist that poverty is an absolute concept and that all other approaches involve value judgements that make the resulting estimates of poverty arbitrary. The challenge for the CIS is to substantiate their view that only an absolute poverty measure is capable of identifying 'real' poverty by developing and publishing an absolute poverty line so that others can assess its merits (and uncover its

Table 1 Technical Errors and Misinterpretations in the CIS report

CIS Comment or Argument	Response
1 'Ask most people in this country what they think 'poverty' is, and you will probably get answers such as: 'not having enough food to put on the table', 'not having anywhere to live', 'being unable to buy clothes for your children', and so on ... these commonsense definitions all relate to an <i>absolute</i> conception of poverty.' (p. 2)	SPRC research supports the view that most people think about poverty in terms of <i>subsistence</i> , but that does not imply that poverty is absolute; having enough to buy food or clothes for the children can only be determined relative to the standards that exist in a particular place at a particularly point in time
2 'If poverty is only 'relative', how are we to differentiate those who are 'poor' from those who are not? The solution is found in the construction of a 'poverty line' – an income level below which everybody is deemed to be 'poor'. (p. 2)	The same issues arise in specifying a poverty line when poverty is defined in 'absolute' terms
3 '... in this [The Smith Family] report (SFR), the 'poor' are defined as all those who say they receive an income which is less than half the Australian average for their kind of household.'	The claim that poverty is determined according to whether reported income is below the average for each specific household type is <i>incorrect</i> . An equivalence scale is used to allow all household incomes to be compared (see below) and poverty is then defined relative to one half of the <i>overall</i> mean (or median) equivalent household income
4 'Rather than concluding that those with least money have become better off, it [the SFR] suggests that they have become worse off.' (p. 2)	The SFR claims that poverty has increased, not that the poor became 'worse off' over the 1990s. It is also possible for the real incomes of the poor to increase and for 'absolute' poverty (measured using a poverty line that is adjusted in line with price increases) to increase
5 'To you and I, this means that top earners have become richer. To The Smith Family and NATSEM, however, it means that low income earners have somehow become poorer, even though they have more money than they did before. The report is only able to reach this conclusion because it defines 'relative poverty' as an income below half the <i>mean</i> income. Had the authors followed the more usual practice of defining 'relative poverty' on the basis of the <i>median</i> income, they would not have got this result.' (p. 3)	This statement is <i>incorrect</i> . Table 1 in the SFR shows that if a half-median poverty line is used, poverty increases from 8.2% in 1990 to 8.7% in 2000, with all of the increase taking place after 1995
6 'Had the more usual median income been used as the basis for these calculations, the result would have been ... (b) a conclusion that poverty did not worsen during the Howard years.' (p. 3)	This is the <i>precise opposite</i> of what the median income results show (though the increase since 1995 has been small) – see above
7 '... like most of the research on 'relative poverty', what it [the SFR] is really measuring is inequality.' (p. 4)	No serious study would use the methods employed in the SFR to examine trends in economic inequality
8 'Even when everybody gets better off, the system of measurement [of relative poverty] ensures that those at the bottom of the distribution remain 'poor'. This problem occurs whether we use the median or the mean as the basis for calculating the poverty line. In both cases, the designation of a section of the population as 'poor' will depend on how incomes are distributed within the society as a whole, rather than on what they themselves receive.'	The first part of this statement is <i>incorrect</i> ; it is possible for relative poverty to decline and there are several cases where this happened over the 1990s, as indicated in Table 2 of the SFR. The inclusion of the phrase 'rather than' in the last sentence also means that that statement is also <i>incorrect</i> . The extent of relative poverty is likely to depend (though it may not) on the shape of the overall income distribution and on the incomes of particular families or individuals
9 'It is therefore a mistake to assume that whenever one section of the population becomes better off, another must become worse off – yet this is exactly what The Smith Family Report does assume.' (p. 5)	The SFR does <i>not</i> make this assumption, either explicitly or implicitly; the statement is neither an assumption nor a logical implication of the assumptions that are made to measure poverty in the SFR
10 'Nevertheless, there are compelling grounds for arguing that the figures obtained from these ABS income surveys are so unreliable as to be virtually unusable.' (p. 6)	This is an astounding claim from an organisation that acknowledges that its analysis is based entirely on the figures published in the SFR, rather than on its own independent analysis of the ABS income survey data
11 '... the ABS income data – especially at the lower end of the distribution – are unreliable.'	This may be true, but there is no reliable research that supports the claim. The SPRC and the ABS are currently conducting a three-year research project funded by the Australian Research Council that is examining this issue (as is noted on p. 31 of the SFR)
12 'The fact that they [the self-employed and those reliant on government benefits] are over-represented among those deemed to be 'in poverty' tells us only that they claim to receive less than other people; it does not tell us whether or not this claim is actually true.' (p. 7)	The ABS income surveys do <i>not</i> ask anyone to compare their incomes with the incomes of others, so it is difficult to know what to make of this statement; there is evidence that the incomes of the self-employed are under-reported, but not all of them are at the bottom of the distribution
13 'Averaged over a period of months or years, many of those whom the report describes as being 'poor' would turn out to enjoy higher incomes than are apparent from a single snapshot survey based on one week's receipts, and the total number of people 'in poverty' would be correspondingly smaller.' (p. 8)	This does not follow logically. Extending the time period will increase the incomes of some people and reduce others; what happens to poverty depends upon the pattern of these changes as well as on the implications for mean (or median) income (and hence the poverty line)
14 'When we take account of the value of things like education and Medicare, the 'poor' turn out to get a lot more than we first realise.' (p. 9)	This is true, but many of these services are designed to meet specific needs, so it is not clear what impact their inclusion has on how poverty is conceived and measured
15 'Because the report equates each households member's income with the total family [sic] income, there is an overestimate of the number of people enjoying higher incomes when all individuals in the sample are taken together. This in turn raise the mean income of the whole sample – which has the effect of raising the poverty line and increasing the number of people found to be in poverty. The report recognizes this distortion but does nothing to correct it' (p. 9)	This statement is <i>incorrect</i> and reveals a fundamental misunderstanding of how estimates of poverty or income distribution are derived. There is no distortion and the procedures described in the SFR are in accordance with accepted 'international best practice' in this regard
16 'The authors ... tell us that they have reset all reported negative business and rental incomes to zero ... but it is disturbing to find that some people's reported incomes have been accepted (even when they may have been implausible) while others have been 'reset' even when they may have been valid.' (p. 10)	The reason for setting negative business and other incomes to zero was to maintain comparability with the 1990 data, where negative incomes were reset to zero by ABS. This is explained on p. 32 of the SFR
17 '... the proportion of people estimated to be in poverty is inflated when using households as our unit of measurement, since larger households tend to share higher incomes, but again no allowance is made for this in the report.' (p. 11)	This is <i>incorrect</i> . The SFR notes (correctly) on p. 28 that: 'In general, the broader the definition of the unit of analysis, the lower measured poverty is likely to be.' The final part of the claim is also not correct; the equivalence adjustment (if it had been correctly understood by the authors of the CIS report) is designed to allow for this issue

implicit judgements). Assertions like those made recently by CIS Senior Fellow Helen Hughes (2001:16) that; 'I estimate that no more than 5% of the population – that is, less than one million people – are now living below the poverty line', that have no published statistical basis to substantiate them or allow others to assess their validity and reliability are simply not good enough. The CIS would do well to try to meet the standards of professionalism set by The Smith Family report in this regard.

Towards the end of their article, the CIS authors comment favourably on the budget standards approach to developing a poverty line that has been applied to Australian data by SPRC researchers (Saunders et al 1998; Saunders 1999). The CIS authors note (p. 11) of the budget standards approach that; 'at least this sort of approach is transparent, it does not depend for its estimates of poverty on how much income those higher up the income distribution are earning, and it does not muddle up the analysis of inequality with the analysis of poverty'.

These claims reveal considerable ignorance about the methodology and practice of budget standards research. The low cost budget standards developed at the SPRC do depend on prevailing patterns of inequality, since these determine what is defined as a standard of living that is consistent with economic and social participation. Ironically, the SPRC research concluded that it was not possible to fully participate economically and socially in Australian society on an income equal to half of the median. More was needed – perhaps something closer to one half of mean income, suggesting that The Smith Family estimates may have merit after all, as Peter Davidson from ACOSS has recently observed (Davidson 2002).

The CIS report contains qualified support for both a median income (relative) poverty line and a measure informed by research on budget standards. This represents a significant advance over the pre-occupation with 'behavioural poverty' that permeates earlier CIS studies of poverty (Sullivan 2000; Hughes 2001). At least the authors of the latest CIS report have tried to engage at a more serious level with some of the issues that are at the forefront of the poverty debate. The challenge they now face is to come up with a poverty measure that can be judged in the same way that they have judged other measures.

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\* Professor Peter Saunders has been the Director of the Social Policy Research Centre at the University of New South Wales since 1987. He has undertaken extensive research on poverty and economic inequality in Australia and in 1995 was elected a Fellow of the Academy of the Social Sciences in Australia in recognition of that work. He is not related to his namesake, one of the authors of the CIS Report discussed in this article. The TSF/NATSEM report can be accessed on [www.smithfamily.com.au](http://www.smithfamily.com.au).

ISSN: 1444-6383

ISBN: 1 876833 21 1