From the Executive Director

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HARDLY a week goes by without another story of high and escalating rates of poverty in Australia.

Although there are no regular government estimates of poverty in this country, a recent book—with contributions from most Australian poverty experts—concluded that, in 1996, 17 per cent of all Australian households were in poverty and another 13 per cent were on the verge of poverty. This is equivalent to 3.6 million people—or about the population of Melbourne—and represents a 50 per cent increase on the poverty rate found in 1974.[1]

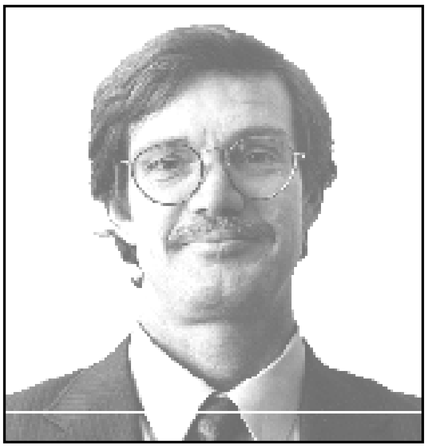
Clearly, if these reports have any connection with reality, they would indicate a scandal of monumental proportions. Australia is a rich country. Beyond an irreducible minimum produced by bad luck or folly, there should be no poverty in Australia.

So, what is really going on? Although we do not know with precision what the poverty rate in Australia is—because we have avoided measuring it—there is enough evidence to conclude that poverty, as it has traditionally been understood, is low and close to the irreducible minimum.

Of course, many Australian families struggle to get by on low incomes. That does not mean they are in poverty. Poverty has a clear and accepted meaning to ordinary folk—not being able to afford the basic necessities of life.

The overstatement of poverty is largely a result of a basic misrepresentation. The Henderson Poverty Line (HPL)—which is the main measurement of poverty in Australia—is a *relative* index based on a fixed share of average per capita household disposable income. It is not, and never has been, linked in any way to the actual cost of basic necessities.

The HPL is, in fact, a tool for measuring inequality, not poverty. The problem with such measures is that they ensure that poverty is always with us. Some households will always lie at the tail end of the income distribution, and be relatively 'poor', no matter how much they earn or consume.



In order to see what is happening with poverty, we need a measure that is related to a basket of life's necessities. Although such a measure does not exist in Australia, a rough and generous estimate can be obtained by indexing the poverty line in 1974 by the consumer price index (CPI). This shows what an acceptable standard of poverty in 1974—when the HPL was first established—would be today. In 1998, the HPL was 35 per cent larger than the 1974 HPL indexed by the CPI. In other words, the lion's share of the reported increase in the HPL since 1974 has been driven by steadily inflating the poverty standard.

The received poverty estimate in Australia suffers from a number of other known flaws.

First, some crucial sources of income are left out of the calculations. In particular, government transfers—including payments in kind for education, health and community services and subsidies for housing, transport, aged care, and child care—are not included as income. These payments have more than doubled since the early 1980s and now represent about 35 per cent of the income base of low-income families.[2]

Second, the received poverty measures fail to take into consideration the fact that people's earnings increase as they get older. Recent research has shown not only that poverty is often a temporary phenomenon, but that Australia is still a world leader when it comes to social mobility. Indeed, one recent piece of research found that, once life-cycle factors are taken into account, income distribution, and therefore poverty as measured by the HPL, declines by a whopping 40 per cent.[3]

Third, the HPL is based on income data which, for a variety of reasons—including the failure to include income from savings and the black economy—are known to understate the levels of consumption significantly, and therefore overstate the level of poverty. For example, income data from the household expenditure survey understate the ability of low-income households to spend and consume by around 56 per cent. If one uses expenditure figures, rather than income data, then as few as 14 per cent of the households who were below the poverty line using income data remain below the poverty line.

In other words, taking into account the known flaws of the received poverty measurements, poverty rates in Australia are relatively small. Instead of 17 per cent, the poverty rate is more in the vicinity of 2 per cent. The point isn't that income inequality is not worth measuring, but simply that income inequality is not poverty.

Why the exaggeration? As Will Rogers said, 'when in doubt, always go with self-interest'. For the poverty industry, high poverty lines are good for business. Of course, the industry directs its resources with greater precision than its rhetoric, but the possibility that careless rhetoric will influence the allocation of resources away from their greatest need should cause concern.

NOTES

1 *Australian Poverty: Then and Now* edited by Ruth Fincher and John Nieuwenhuysen, Melbourne University Press, Melbourne, 1998, page 4.

2 King, A., 'Income Poverty Since the Early 1970s' in Fincher and Nieuwenhuysen, 1998, pages 71–102, page 98.

3 Harding, A., 1993, *Lifetime Income Distribution and Redistribution: Applications of a Microsimulation Model*, North-Holland, Amsterdam.