

Developing a Framework for Benchmarks of Adequacy for Social Security Payments

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Department of Social Security

POLICY DISCUSSION PAPER NO. 6

**DEVELOPING A FRAMEWORK
FOR BENCHMARKS OF
ADEQUACY FOR SOCIAL
SECURITY PAYMENTS**

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The opinions expressed by authors in this paper do not necessarily represent the views of the Department of Social Security and cannot be taken in any way as expressions of government policy.

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1. EXECUTIVE SUMMARY

Recently reported evidence on poverty and income inequality, including indications of persistent pockets of disadvantage, has focused attention on the current Government's commitment to the adequacy of social security payments and the effectiveness of the social security system in alleviating poverty. In this context, the Minister for Social Security announced in November 1993 that the Department of Social Security (DSS) would be undertaking a study into the development of benchmarks of adequacy for DSS payments. As a first step, this report discusses the issues associated with the development of benchmarks and explores possible approaches to improving the assessment of adequacy.

Statements regarding the adequacy of incomes are essentially based on community attitudes and values which change over time. While research cannot substitute for such judgements, it can inform those judgements. However, research into adequacy requires context. It is not possible to simply ask whether incomes are adequate - it is necessary to specify 'adequate for whom' and 'adequate for what'. A core criterion for both provider and recipient is likely to be that DSS payments are adequate if they allow the recipient to live modestly but decently within his or her community, having regard to that community's norms and values.

It is acknowledged that income is only one factor influencing living standards. Differences in need between families of different composition and differing endowments of other non-cash factors (including differential access to social wage elements) will result in families with similar incomes achieving different living standards. A better understanding of the relative influence of non-cash factors would improve assessments of adequacy.

Available research on poverty and living standards provides some insight into, but little empirical evidence regarding, the adequacy of payments to social security clients. However, while current research provides no single methodology that will provide a definitive answer, it does yield a number of methodological tools which could be employed to better inform judgements about adequacy.

Prescriptive approaches, which nominate a specific and independent measure against which the adequacy of payments could be assessed, share common problems. All are subject to criticism of their underlying assumptions. However, independent research into prescriptive approaches can contribute to the broader debate regarding poverty and the adequacy of payments. In particular, the Budget Standards approach could be employed to provide more information about the income requirements of households and to contribute to the broader debate on the extent and incidence of income poverty in Australia.

In addition to the prescriptive approaches, it would also be possible to employ a more descriptive methodology, which would consider client outcomes not against set criteria but in a comparative framework.

Such a methodology adopts a progressive and evolutionary approach to adjusting existing relativities and benchmarks, thereby maintaining the public consensus associated with the current social security structure, and avoids the difficulties and controversies associated with explicit, prescriptive benchmarks. It has a strong focus on outcomes and on equity between

client groups and could provide a tool for setting priorities based on empirical evidence of deprivation.

Recognising that judgements regarding adequacy will remain essentially political, this report sees merit in adopting a composite framework for better informing consideration of adequacy issues. This framework draws both on the descriptive approach, with its focus on outcomes and potential in identifying priorities, and on the development of Budgets Standards, with its emphasis on identifying indicative income requirements of different households.

To implement a descriptive approach to adequacy assessment would require, as a first step (a period of four to six months), the development, testing and piloting of a survey-based methodology for measuring relative deprivation among social security clients. This exercise would be a necessary precursor to a decision regarding the full scale implementation of a descriptive approach. Should it prove impossible to identify systematic variations in living standards among clients, the basic premise of the descriptive approach would be brought into question. However, should this approach prove viable, it would then be possible to proceed with the full implementation, which would likely entail a significant survey of clients.

The development of Budget Standards is a considerable undertaking. Recent experience in the United Kingdom suggests that the development of detailed budgets for a range of households requires a significant research effort which integrates a wide variety of specialist knowledge. It will also require resolution of important methodological problems such as the accommodation of cultural and regional diversity.

2. SCOPE AND FOCUS

The importance of assessing the adequacy of social security payments has gained greater prominence in recent time. At least part of the concern about payment adequacy is founded in the current debate on poverty and inequality. There is considerable agreement among academics that income distribution became more unequal in the 1980s (Saunders 1993a:3). It has also been suggested that poverty has increased, although on this point there is less consensus (Southwell and Holbert 1994:70-1). Some researchers estimate that, at the end of the 1980s, more than one in six Australian families were in poverty and that for some groups, such as sole parents, the poverty rate exceeded 50 per cent (Saunders 1993b:49-50).

Clearly, such estimates raise concern regarding the effectiveness of the social safety net. Indeed, they imply that the social safety net may have become less, rather than more, effective. Such an implication is problematic given the real improvements that have occurred in the value of cash transfers and social wage outlays. This apparent contradiction suggests that methods used by academics may not be very informative about the living standards of DSS clients, either in relative or absolute terms, and that a better understanding is needed.

Furthermore, notwithstanding the improvements in transfers and the increased real value of many DSS payments, anecdotal evidence continues to suggest persistent pockets of disadvantage within the community. In a time of stringent fiscal policy, anecdotal evidence carries little weight. Stronger arguments founded in better research are an important part of focusing attention on, and securing priority for, those in greatest need.

It is in this context that the Minister for Social Security announced, at the Social Security Policy Conference in November 1993, that the Department would be working towards developing a framework for benchmarks of adequacy for Social Security payments.

This report brings together work undertaken during the first phase of this study. It examines methodological and conceptual issues associated with adequacy assessment and considers current practices for assessing the adequacy of DSS payments. The report explores alternative sources for their possible contribution to adequacy assessment, including current research into poverty and living standards. It evaluates, at a conceptual level, various approaches to assessing adequacy and developing benchmarks.

Stage One of this study has sought to draw together information from a wide range of sources. Following initial consultations with experts in the fields of social policy and poverty research, an Advisory Group was established which comprised Associate Professor Peter Travers of Flinders University, Dr Peter Saunders of the Social Policy Research Centre, Mr Don Siemon of the Brotherhood of St Laurence, Mr Peter Davidson of the Australian Council of Social Service, Professor Ann Harding of the National Centre for Social and Economic Modelling, and Ms Helen Brownlee of the Australian Institute of Family Studies. Representatives from the Departments of the Prime Minister and Cabinet and Housing and Regional Development also attended the Advisory Group meetings. The Advisory Group met three times through 1994 to provide feedback on specific issues, including background papers prepared by the Department, and to provide advice on possible future directions.

Three background papers have been prepared during the course of Stage One of this study. They have drawn extensively on domestic literature (such as the work of the Social Policy Research Centre, the Australian Institute of Family Studies and independent researchers such as Professor Peter Travers and Dr Sue Richardson) and, as far as possible, considered international research in this field (including the work pursued by leading authorities such as Professor Jonathan Bradshaw and Professor John Veit-Wilson).

Background Paper 1 (Appendix A) considers the theoretical bases for assessing adequacy and the implications of their possible application in Australia while Background Paper 2 (Appendix B) examines the relative contribution of cash and non-cash factors (including social wage outlays) to the determination of living standards. Background Paper 3 (Appendix C) reviews the methodologies that have been employed in Australia and overseas to assess living standards, and explores additional methods by which the Department may be able to improve its understanding of the living standards being achieved by DSS clients.

During the course of this research, further discussions have been held with individuals and organisations in order to further explore approaches to the assessment of adequacy and to consider those factors which may influence the adequacy of incomes.

With the assistance of the Australian Council of Social Service (ACOSS), discussions were held with representatives of emergency relief providers in New South Wales and Victoria. These discussions indicated that a detailed examination of living standards was likely to reveal systematic differences among the living standards of social security clients, implying that not all needs are being equally addressed. The meetings also indicated the importance of other factors to the adequacy of incomes, including differentials in state government charges, duration of dependency and cultural factors.

This report synthesises the material contained in the background papers and integrates the additional data obtained from the above sources over the course of the year.

Since the inception of this study, it has been envisaged that Stage One would explore, at a conceptual level, the issues associated with developing benchmarks for, and assessing the adequacy of, DSS payments. Further work would be required to develop the conceptual framework emanating from Stage One and to implement any such approach.

3. SOME CONCEPTUAL ISSUES

3.1 DEFINING THE CONCEPT OF ADEQUACY

Developing appropriate criteria

Statements regarding the adequacy of incomes are, necessarily, influenced by community views and attitudes. They reflect judgements regarding the legitimate aspirations of individuals, the role of the individual within the society, and the relationship between the individual, the community and the state.

As such, there can be no absolute statement regarding adequacy. The notion of adequacy must be placed in context with regard to both subject and purpose. As Veit-Wilson notes (1994:3), one cannot simply ask whether incomes are adequate: it is necessary to specify *adequate for whom* and *adequate for what*. An important question not yet resolved is whether the standard of adequacy for some DSS clients is set higher than for others and whether equal priority is given to meeting the needs of all clients.

Whilst research cannot substitute for such judgement, it can inform those judgements. The central question of poverty research revolves around the adequacy of income, and poverty research provides a range of methodologies which can contribute, to greater or lesser extents, to better informed judgements regarding adequacy.

Therefore, the assessment of the adequacy of incomes requires the adoption of criteria. These criteria may be different depending on one's perspective - it is not necessary, for example, that the adequacy criteria of the provider of income support will be identical to the criteria adopted by the recipient.

From the perspective of the Government, as a provider of income support, assessments of adequacy may be influenced by broader fiscal objectives, labour market incentives or judgements about community goals. It is likely, however, that the core criteria of both provider and recipient is the extent to which DSS payments allow the recipient to achieve social and economic outcomes. This is consistent with the current Government's commitment to the social security safety net in the alleviation of poverty and the perception of poverty as a failure or an incapacity, through lack of resources, to achieve certain outcomes (Ringgen 1988:353-4).

The question of the social and economic outcomes which are to be incorporated in the notion of adequacy (or poverty) is not amenable to 'scientific' determination. The decision is invariably subjective and a failure to embrace this subjectivity will frustrate attempts to establish benchmarks of income adequacy. Indeed, it has been argued that a perception that these concepts can be derived objectively and scientifically has, in Australia, contributed to a reluctance to formulate a practical and relevant standard of adequacy (Mitchell 1988:4-5). In this context, the concept of 'living decently' (Travers and Richardson 1993) is valuable in conveying the notion that one should be able to live decently within one's community, having regard to that community's standards and norms.

Adequacy benchmarks and poverty lines

It has been suggested that assessing the adequacy of transfer incomes is a fundamentally different exercise to assessing poverty (Veit-Wilson 1987). Whilst acknowledging that there are conceptual difficulties associated with differentiating between poverty lines and adequacy benchmarks, researchers have argued that the essential distinction between the two is that unlike a poverty line, a benchmark does not need to define a threshold point below which people's living standards deteriorate markedly.

Whilst it is clear that poverty research 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. As such, it would be subject to scrutiny in relation to its strengths as a poverty indicator and would attract the expectation that the benchmark would constitute a level below which payments would not fall.

It is acknowledged therefore that, for the purposes of public presentation, there is little prospect of maintaining a distinction between an explicit adequacy benchmark and an income poverty line.

Income as a proxy - outcomes versus opportunity

It has been noted that there are two separate conceptual definitions for poverty (Ringen 1988:354-5). The first identifies as poor those people without the resources necessary to achieve a certain level of consumption. The second describes people as poor if their standard of consumption falls below that considered 'decent' within the community. The principal distinction between these two conceptions is that the former focuses on what could be achieved - **opportunities** - and the second on what is achieved - **outcomes**.

Whether strategies to assess the adequacy of welfare state provisions should focus on outcomes rather than opportunities is less clear. To date, where measures have been advanced as means for assessing the adequacy of Australian social security incomes (Commission of Inquiry into Poverty 1975; Mitchell 1988), they have focused on the adequacy of incomes rather than the adequacy of outcomes. It is possible to argue that in addition to actual outcomes, the state is also concerned with the manner in which outcomes are achieved - that is, where positive outcomes in one area are achieved by compromise in another. For example, it would clearly be considered unsatisfactory if it was found that the children in a family received sufficient food only because the parents sacrificed their share. The state may also be concerned about the context in which outcomes are achieved - for example, deprivation among the dependent and disabled may be of more concern than deprivation among able-bodied adults without dependants.

However, claims that welfare assistance is providing sufficient opportunities are likely to be unpersuasive if persistently poor outcomes are evident among certain groups. To be persuasive, any approach focusing on income would also require validation against actual outcomes. The failure of researchers to undertake this work in the Australian context

undermines the capacity of much of the existing poverty literature to contribute significantly to adequacy assessment (Donnison 1987).

The role of expert and subjective opinion

The relative reliance on expert judgement on the one hand and community consensus on the other is of particular importance when evaluating the adequacy of DSS payments. Much recent research into poverty and living standards (Bradshaw 1993 being a notable exception) has placed primary reliance on consensual or subjective methodologies. As Mack and Lansley note (1985: 47):

'this approach removes the concept of poverty from the arbitrary exercise of judgement by 'experts', politicians and governments, where up to now it has remained firmly entrenched'.

The approach of Mack and Lansley represented a significant departure from traditional practice. However, where consensual approaches are employed, it is necessary to note the risk that persistent low income will lead to a lowering of expectations in relation to health, housing and educational outcomes (Townsend 1981). Similarly, demographic groups characterised by low incomes may have lower expectations with regard to necessary income levels than are groups with higher average incomes (see Appendix A p. 35).

Measures of adequacy for social security payments should take particular effort to avoid reinforcement of existing disadvantage and need to be more sensitive to this criticism than poverty measures. Ultimately, the risk of paternalism needs to be balanced against the possible reinforcement of disadvantage.

3.2 THE RELATIONSHIP BETWEEN CASH INCOME AND LIVING STANDARDS

Cash income is an important indicator of economic well-being, particularly in industrialised capitalist countries which have relatively small informal sectors. However, while it is broadly acknowledged that factors other than cash income contribute to determining living standards (such as access to social wage elements, geographical location, family support, personal resources and differences in need), the relative contribution of non-cash factors is not well understood.

Dealing with differences in need

Social security payments in Australia are 'adjusted' to take into account some factors that contribute to differences in income need, most significantly the number of people dependent on the payment, but also the age of any children, rental costs, remoteness and disability. Historically, there has been a recognition that duration of dependence is an important factor the difference in payment levels to pensioners and allowees has rested on an implicit assumption that allowees will need to address short-term needs only. The distinction between these payment categories is eroding, in recognition of the blurring of labour market distinctions - while some pensioner groups may be attached to the labour force through

part-time work or training, some allowees will experience long spells out of employment and entry may be through part-time work.

In poverty and living standards research, differences in needs are most often accommodated by the application of equivalence scales. These attempt to describe the extent to which family types in different circumstances will need different income levels to achieve the same 'well-being'. However, there is no widely agreed best methodology for determining equivalence scales, and different methodologies yield significantly different outcomes.

From an adequacy perspective, the treatment of economies of scale for additional children is of considerable significance. Scales derived from Government program administration in Australia imply diseconomies of scale for children with higher payments per child for families with four or more children. On the other hand, subjective equivalence scales tend to imply significant economies of scale for children which may indicate a 'preference shift', whereby there are changes in adult consumption patterns to accommodate the higher costs of children. Where the allowance for additional children inherent in an equivalence scale exceeds that reflected in the social security system, estimates of poverty will almost invariably indicate that large families face greatest difficulty.

Despite the recent equivalence research in Australia, the Henderson, Whiteford and OECD scales continue to be the most widely used and reported. These scales have significant problems.

- The OECD scales are arbitrary and vary only according to the number of adults and children in the family. For example, they do not consider factors such as the age of children or adults or the labour force status of family members.
- Whiteford's scales are a geometric mean of individual scales which utilised a number of different approaches and were taken from eight different countries. Much of the research is dated with the earliest of the studies undertaken in 1917 (the Netherlands), and most undertaken in the 1950s and 1960s. As with the OECD scales, they consider only the number of adults and children in the family.
- While the Henderson scales incorporate a larger range of factors, they reflect expenditure patterns in New York in 1954 and are unlikely to appropriately reflect differentials in Australia in the 1990s.

On the other hand, the equivalence scales implicit in social security payments are responsive to a wide range of factors including the age and disability status of children, the additional cost of sole parenthood and the housing status of the family / individual and have been developed progressively through an open and consultative process. In this context, it could be argued that the existing relativities within the social security payment system may constitute a more relevant and sophisticated assessment of relative need in Australia in the 1990s than any of the commonly used equivalence scales. However, there is no suitable external validation. It may well be that other dimensions should be of greater significance in equivalence scales, for example, geographical factors. The reality is that it is not clear, first, what the most appropriate needs-based adjustments should be and, second, the extent to which they should be responded to by program payments.

Dealing with social wage/non-cash factors

There are a number of other non-cash factors, apart from differences in need, which may result in families with similar cash incomes achieving markedly different standards of living. One important factor is differential access to social wage expenditure. Researchers have shown that the social wage, and particularly expenditure on education and health, has become more significant as a redistributive tool over the life of the current Government (Raskall and Urquhart 1994). However, access to goods and services is not uniform and some groups face particular disadvantage in terms of access. Income also does not account for differences in financial circumstances in that it fails to recognise the value of non-employed time, neglects saving and dis-saving and does not take into account assets built up in times of prosperity.

Goods and services received from people outside the household can also be important to a family's standard of living, particularly for low income families. For example, a family's outcomes can be improved by having access to financial resources in an emergency, child care, housing, transport and food provided by relatives. An individual's personal attributes can also affect their standard of living. For example, individuals differ markedly in their resourcefulness or ability to utilise resources efficiently. However, these attributes are in turn influenced by other factors such as education and experience, as well as access to services and information.

Living standards can be fundamentally affected by factors other than cash income. As such, an understanding of the relative contribution of such factors is important if benchmarks for social security payments are to accurately reflect the legitimate differences in the requirements of clients in varying circumstances. Furthermore, an improved understanding about non-cash factors would allow a more detailed understanding of the reasons for differences in living standards among DSS clients and, if required, support the formulation of policy responses, incorporating both cash and non-cash elements. These issues are considered more fully in Background Paper 2 which is at Appendix B.

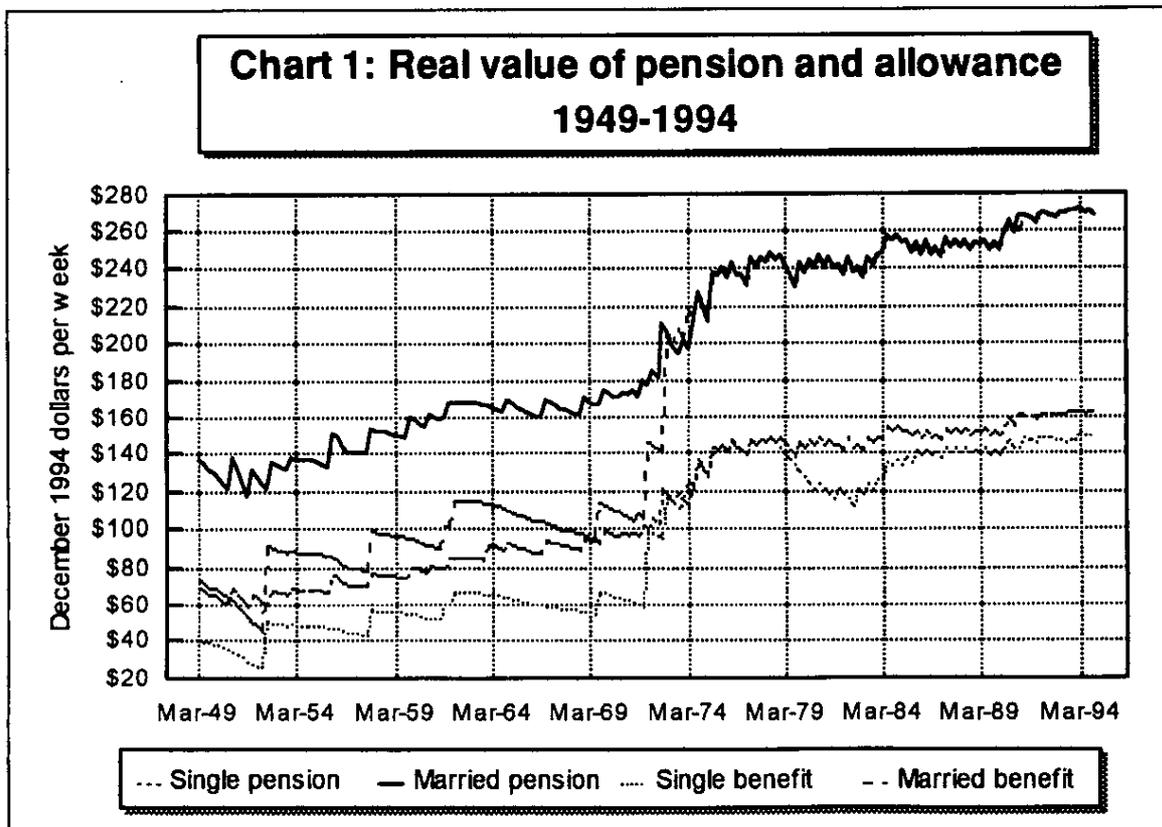
4. CURRENT PRACTICES FOR ASSESSING AND MAINTAINING THE ADEQUACY OF PAYMENTS

The Department of Social Security uses three main methods for assessing the adequacy of social security payments. These include the consideration of changes in the real value (or purchasing power) of payments and changes in the relativity between the nominal value of payments and the value of community earnings, as well as the use of benchmarks.

4.1 THE REAL VALUE (PURCHASING POWER) OF PAYMENTS

Changes in the real value of payments are assessed using the Consumer Price Index (CPI) published by the Australian Bureau of Statistics (ABS). Legislative provision for indexation preserves the real value of most payments, including the real value of ad hoc payment increases. As pensions and allowances are indexed to the CPI, any increases in their real value should be the result of a specific rate increase. However, real increases can also occur as a result of the time lag between the indexation period and payment adjustment. Changes in the real value of pension and allowance since 1949 are shown in Chart 1.

Monitoring real changes in the value of social security payments is informative in that it indicates whether the purchasing power of a group has changed (assuming that the basket of goods purchased by that group is reflected adequately in the CPI). However, the use of real changes to describe the levels of adequacy of social security payments has limitations. As it lacks any explicit notion of adequacy, it can only indicate that their purchasing power is higher



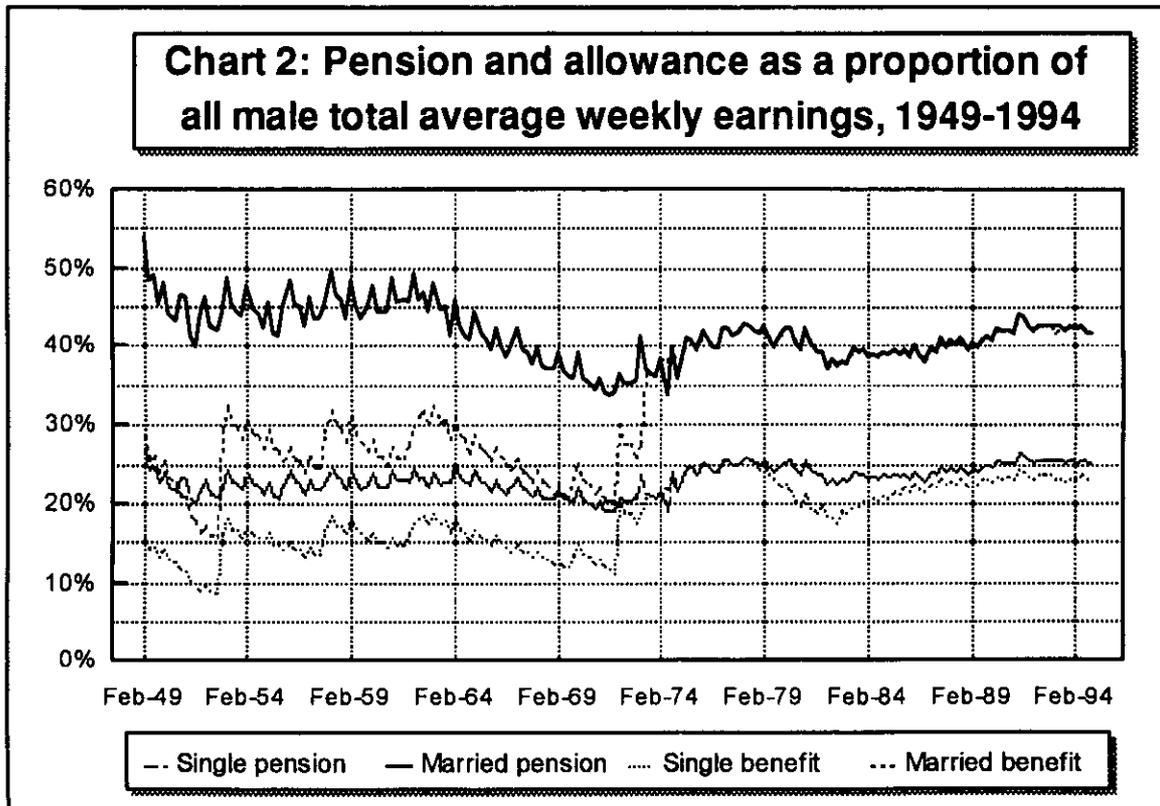
or lower than previously and not whether payments are adequate. Real changes are also sensitive to the choice of end points and are unable to reflect changes in community expectations and relativities.

4.2 PAYMENT RATES AND COMMUNITY EARNINGS

Male total average weekly earnings (MTAWE) is used in monitoring the value of social security payments, reflecting the fact that statistics available before 1981 related solely to males and that the current Government has set its objectives for age pensioners in terms of this measure.

The current Government's pledge to achieve a standard (single) pension level of at least 25 per cent of MTAWE (detailed in Section 4.3) was achieved in April 1990 and has generally been maintained since. As at November 1994, the standard pension was 25.0 per cent of MTAWE. Between 1949 and 1990, pension had only exceeded 25 per cent of MTAWE in February 1949, February 1964 and in several quarters in the years 1976-1981. Chart 2 shows the relationship between pension and allowance and MTAWE from 1949 onward.

Comparison with community earnings is useful in that it reflects the extent to which social security clients share in changes in community living standards. However, as with assessing changes in the real value of payments, the comparison is strictly relative and has no explicit notion of adequacy. As such, a decline in community living standards may see the apparent position of DSS clients improving without any improvement in their absolute standard of living. The use of MTAWE as an indicator of community earnings is also problematic as the



impact of significant demographic and labour force change on household incomes is not reflected.

4.3 AGE PENSION AND FAMILY PAYMENT BENCHMARKS

In recent years, benchmarks have been adopted for the single rate of Age Pension and family payments. Whilst they are frequently cited as indicators of adequacy of DSS payment rates, they differ in their establishment and the extent to which they incorporate an explicit notion of adequacy.

Age Pension

The current Government's commitment to lift the standard rate of pension to 25 per cent of male total average weekly earnings is long-standing. In his policy speech for the 1969 federal election, the Hon. Gough Whitlam M.P., then Opposition Leader, promised to tie pensions to a proportion of average weekly earnings. He reasserted this promise in his policy speech for the 1972 election. In the Statement of Accord by the Labor Party and the ACTU in February 1983, the parties also agreed to restore the basic rate of pension to 25 per cent of average male weekly earnings. This pledge was reaffirmed by the then Minister for Social Security, the Hon. Brian Howe M.P. in 1989.

Ad hoc pension increases, assisted by the continued indexation and slow growth in community earnings, saw Age Pension rise above 25 per cent of MTAWE in April 1990.

As noted previously, comparisons of pension rates with community earnings reflect the extent to which social security clients share in changes in community living standards. However, they do not contain any explicit concept of adequacy. For example, there is no reason to believe that something lower or higher than 25 per cent of MTAWE is not a more appropriate benchmark.

The Age Pension benchmark is not embodied in legislation. While the married rate of pension to each member of a couple is currently 83 per cent of the single rate and has been since August 1974, this relativity is also not reflected in legislation and has been preserved by a combination of indexation provisions and convention. The basic rate of Sole Parent Pension, Disability Support Pension, Carer Pension and Widow B Pension has also been tied to the rate of Age Pension by convention.

Family Payments

In the context of the 1987-88 Federal Budget, the then Minister for Social Security, the Hon. Brian Howe M.P. announced in September 1987 that the Government would be adopting benchmarks of adequacy for family payments. The benchmarks were originally set at 15 per cent of the combined married rate of pension for children under 13 years and 20 per cent for children 13-15 years.

It appears likely that this decision had regard to representations made to the Government at the time, to contemporary research (including the findings of Whiteford, 1985) and to the conclusions of the Social Security Review (which was established by the Hon. Brian Howe M.P. in February 1986 with the aim of identifying priority areas of reform).

Whilst the process of setting the family payment benchmarks had considerable regard for available research on the costs of children, it is not clear that the benchmarks were based explicitly and directly on any specific research findings. Whiteford's work (1985) involved the calculation of two geometric means of equivalence scales research. The scales which were included in the geometric mean utilised a number of different approaches and were taken from eight different countries. Much of the research is dated with the earliest of the studies undertaken in 1917 (the Netherlands), and most undertaken in the 1950s and 1960s. Furthermore, there is no differentiation between scales on the grounds of their academic quality or integrity or their relevance to contemporary Australian conditions and consequently each individual scale contributes equally to the final overall result.

In the absence of any record of the relative weight accorded to different sources, the family payment benchmarks are best viewed as an informed 'community' judgement. The legitimacy of the benchmarks as estimates of the additional cost of children is undermined to some extent by the fact that the benchmarks have been raised, not to reflect new and better research, but to preserve the value of subsequent real payment increases.

5. THE RELEVANCE OF AUSTRALIAN RESEARCH INTO POVERTY

5.1 THE HENDERSON POVERTY METHODOLOGY

The best known approach to estimating income poverty in Australia is the Henderson poverty methodology. Although its conclusions have no official endorsement, it continues to be widely used in the academic and welfare communities.

The Henderson poverty methodology has its origin in a survey of poverty in Melbourne undertaken by Melbourne University's Institute of Applied Economic and Social Research (IAESR), directed by Professor Ronald Henderson, in 1966 (Henderson et al 1970). This study provided the framework for *the Commission of Inquiry into Poverty*, which was commissioned by the Federal Government in 1973. The Commission presented the *First Main Report of the Commission of Inquiry* (hereafter referred to as the Henderson Report) in 1975.

There are three separate components to the Henderson methodology for determining the incidence and depth of poverty. The first is the base poverty line for a standard income unit, the second is the means by which the base poverty line is modified to reflect differences in need and the third is the means by which the base poverty line is updated over time.

The Base Poverty Line

As a precursor to their survey of income and needs in 1966, the IAESR agreed that a state of poverty would exist where 'a man with a wife (not working) and two children whose total weekly income at that time was less than the basic wage plus child endowment' (Henderson et al 1970: 1). In Melbourne in 1966, this amounted to \$32.20 per week. The IAESR, in fact, set its poverty line at \$33 per week. Total weekly income was counted after income tax.

Professor Henderson subsequently described those with incomes below the poverty line as 'very poor' and those with income less than 20 per cent above it as 'rather poor'. Henderson described the poverty line as being set at 'an austere low level', arguing that 'It cannot seriously be argued that those below this austere line, whom we describe as very poor, are not so' (CEP 1975:13).

Although linked to community earnings, the level of the poverty line was essentially an arbitrary decision, based on a value judgement by Henderson about what was 'austere', as well as what he considered as the country's capacity or willingness to pay. In fact, most wage earners received far higher incomes than the minimum wage: the income level chosen by Henderson was 56.6 per cent of average weekly earnings.

Adjusting the Base Poverty Line to reflect differences in need

In undertaking their 1966 study, the IAESR observed that there was 'almost a complete lack of material in Australia on which to base adjustments of this kind' (Henderson et al 1970:26).

They subsequently elected to adopt equivalence scales based on data prepared in 1954 by the Budget Standard Service of New York for the use of social and health agencies in New York. The equivalence scales allowed for differences in costs for the number of people in the income unit, the age, sex and labour force status of the individuals as well as differences in housing, fuel and power costs. These scales, with some minor definitional changes, were again employed by the Commission of Inquiry into Poverty in Australia in 1973 although they were seen as an interim solution pending the availability of data from the ABS income and expenditure survey (CIP 1975:13).

Adjusting the Base Poverty Line over time

Since the 1970s, the IAESR have published regular updates to the Henderson Poverty Line. Until 1981, the line was updated so as to preserve its relativity with average weekly earnings. This approach was revised in 1981. Since then, the base poverty line has been adjusted to reflect growth in household disposable income per capita (HDIPC) since September 1973.

HDIPC is a national accounting concept and includes imputed rent for owner-occupiers and mortgagees, as well as imputed interest on superannuation benefits. Tax in this measure includes interest on consumer debt, and fees and fines. This compares with the commonly used concept of household disposable income which is limited to the sum of private income (including wages, rent, interest, dividends and income derived from self-employment) and government transfers, minus personal income tax.

5.2 THE RELEVANCE OF THE HENDERSON METHODOLOGY

By the late 1970s, concern regarding poverty measurement, including the usefulness of the Henderson approach, had begun to emerge. This concern led to the Social Welfare Policy Secretariat being asked to examine the use of poverty lines. The Secretariat's Report on Poverty Measurement, released in 1981, concluded that it was unable to develop an alternative poverty line, principally due to the lack of consensus regarding the concept of poverty. As a consequence, the use, and criticism, of the Henderson methodology has continued.

Critics of the Henderson methodology¹ argue that:

- the base poverty line was set arbitrarily without any comprehensive assessment of need;
- the equivalence scales are based on expenditure patterns which are of little relevance to contemporary Australia; and
- the measure used to update the base poverty line, HDIPC, is incompatible with income measures used in the income distribution surveys and leads directly to inflated poverty estimates.

It has also been noted that, in common with other poverty line approaches to poverty estimation, the conventional application of the Henderson methodology results in estimates of

¹ see, for example, Stanton 1980, Harding and Landt 1991, Mitchell and Harding 1993.

the numbers in poverty but provides little information about the depth of poverty. Those with incomes marginally below the poverty line are grouped with those whose incomes are substantially below the poverty line. A minor variation in income may change someone's poverty status without significantly affecting their living standard.

However, such criticism has not achieved a consensus for the abandonment of the Henderson methodology or the adoption of any alternative approach. While proponents of the methodology generally acknowledge some shortcomings, including the need to consider the continuing relevance of the measure, they argue that '(i)n Australia, the Henderson poverty line remains the only attempt to systematically develop informed judgements about need designed specifically for the purpose of measuring the extent of relative poverty' (Saunders 1995:9). They suggest that arbitrariness is not a sound basis for criticism and that Henderson in 1966 was well placed to make a judgement regarding an appropriate 'poverty line' (Saunders 1995:9-10). It is also noted that research has failed to provide a strong basis for choosing a different set of equivalence scales (Saunders 1994:251).

It is not necessary to resolve the debate over the merits of the Henderson approach to poverty measurement to draw conclusions regarding its relevance in assessing the current adequacy of social security payments. It is clear that both proponents and critics of the methodology concede that the contemporary relevance of aspects of the methodology are open to question:

'Given that it was originally devised in the mid-1960s, a good case can be made for reviewing the relevance of the Henderson standard to contemporary conditions and values in Australian society'(Saunders 1994:249).

It has been suggested that budget estimates could be employed to provide a more relevant basis for an income poverty line, giving some indication of the consumption implications of the designated income level. The preparation of budget estimates, by independent organisations, to inform the setting of social assurance payments and the administration of other social programs is widespread in Europe and, to a lesser extent, the United States.

5.3 OTHER APPROACHES

The lack of consensus on the appropriate measurement of income poverty is a situation that is common in most western industrialised countries. For Australia, the failure to arrive at a consensus about an appropriate poverty line measure has resulted in a number of estimates of poverty and poverty trends which have differed quite substantially, depending on the methodology and the assumptions adopted.

In recent years, the use of median equivalent family income data (most commonly 50 and 60 per cent) to estimate poverty rates in Australia has gained greater prominence. The advantage of such a measure is that it explicitly addresses inequality and provides a mechanism for assessing relative economic well-being. However, this measure has limited applicability for assessing the adequacy of social security payments in a targeted 'needs-based' system. Those who use this methodology acknowledge it to be a strictly relative measure with no explicit connotation of adequacy. For example, there is no reason why 45 or 55 per cent should not be used instead of 50 per cent.

Advances in computing techniques and the availability of unit record data have facilitated the development or use of other empirical indices of income poverty, such as the poverty gap measure (which indicates how far below the poverty line groups fall) and the Sen Index (which aggregates poverty gap, inequality and incidence measures) (see, for example, Forster (1993)).

These two methodologies have been mooted as more appropriate than a 'head-count' or incidence measure, given the additional information they provide. The poverty gap measure provides additional information that policy makers find useful in determining priorities in the alleviation of poverty. If one group consists of a high number of individuals just below the poverty line while a smaller number in a group experiences a greater depth in poverty, decisions can be made about appropriate responses. However, while they constitute an advance of simple head count approaches in terms of estimating changes in poverty over time, they provide little assistance in assessing the adequacy of DSS payments to particular groups.

6. LIVING STANDARDS AS AN INDICATOR OF ADEQUACY

In the course of this study, recent Australian research on living standards was examined in order to explore the possible contribution such research could make to the assessment of the adequacy of DSS payments. Two major Australian living standards studies have been conducted in recent times: the Australian Standard of Living Study and the Australian Living Standards Study.

Both of these studies adopt a 'relative' approach to the measurement of living standards that involves assessing an individual or family's needs in the context of the society in which they live. As Townsend notes 'People's needs ... are conditioned by the society in which they live and to which they belong' (Townsend, 1979:3 8). The relative approach is also characterised by the way in which it assesses living standards by describing the circumstances of families or individuals not simply in terms of cash income, but through a range of other indicators, including the ownership of goods, participation in activities and access to resources.

The relative approach involves identifying a number of living standards indicators regarded as indicative of a specified way of life (e.g. minimally adequate, comfortable) in the context of the community being studied, and obtaining information from members of that community about their position in relation to these indicators (for example their level of access to facilities and participation in activities).

Perhaps the main advantage of the relative approach to the measurement of living standards is the comprehensive understanding one can gain of living standards being achieved within the community. This is made possible by the capacity of the methodology to collect information about a broad range of living standards indicators. Examples of the types of factors about which information can be gathered include: environment, for example housing, neighbourhood and work; relationships, including marriage, family and friendships; and personal factors, such as health, education, diet and perceptions of happiness, empowerment, etc.

One of the main disadvantages of this approach is the number of subjective judgements that must be made when employing the methodology, and the potential for these judgements to significantly effect study outcomes. Decisions about the composition of the list of living standards indicators used, and the methods that will be employed to analyse the information collected, can be extremely arbitrary. The methodology also requires the collection of large volumes of information, which can be a very time consuming and expensive process.

6.1 THE AUSTRALIAN STANDARD OF LIVING STUDY

The Australian Standard of Living Study (ASLS) was undertaken in 1987 by Professor Peter Travers and Dr Sue Richardson and the findings are presented in their book 'Living Decently - Material Well-Being in Australia' (1993).

The stated purpose of the study was 'to learn more about the standard of living than was revealed by just money income' (Travers and Richardson, 1993:63). The measure used to assess living standards was 'full income', which was measured by supplementing the more

commonly used concept of cash income with the value of assets and non-employed time. Various indicators of living standard stress were also considered. The information was collected by way of a sample survey. The sample was randomly selected and comprised members of the Australian population aged between 20 and 74 living in private dwellings.

Whilst the ASLS provides one of the most complete sets of data on Australian living standards, it is not able to satisfy the Department's current requirement for living standards information. The number of DSS clients included in the survey sample was very small, and the deprivation indicators chosen were not designed to distinguish outcomes being achieved either between DSS client groups or between DSS clients and the broader community. It is therefore difficult to draw conclusions about the adequacy of outcomes being achieved by clients based on ASLS survey data. Another major difficulty associated with the ASLS data is its age. The study was conducted in 1987 and the authors stress that the findings may not hold true in the 1990s because of the different prevailing economic conditions.

6.2 THE AUSTRALIAN LIVING STANDARDS STUDY

The other major living standards study, the Australian Living Standards Study (ALSS), was conducted by the Australian Institute of Family Studies (AIFS) during the period 1991-93 (with the majority of data being collected in late 1992 / early 1993). The study was commissioned by the current Government through the Social Policy Division of the Department of Prime Minister and Cabinet. One of the most significant stated aims of the study was to examine the adequacy of income as a single indicator of living standards. The study was conducted by undertaking personal interviews with the members of approximately 500 randomly selected families in each of 12 selected localities across Australia.

Like the ASLS, the ALSS can at this stage make only a limited contribution to the Department's understanding of the living standards being achieved by DSS clients. Whilst the original intention of the ALSS was to prepare individual reports relating to each of the 12 localities surveyed and a final consolidated report containing overall study findings, this has not yet occurred. The survey is also limited to families with children and thus excludes significant DSS client groups such as the aged or single unemployed.

However, some scope exists for further analysis of the data gathered by AIFS, which could conceivably complement any more up-to-date information obtained through other avenues.

6.3 OTHER SOURCES OF LIVING STANDARDS DATA

Meetings have been held with selected emergency relief providers in Sydney and Melbourne to explore ways in which such organisations could contribute to the Department's understanding of the living standards being achieved by DSS clients.

Considerable care needs to be exercised in attempting to draw broad conclusions from the data provided by emergency relief organisations. These limitations were widely acknowledged and were stressed by emergency relief providers during the course of discussion.

Nonetheless, these meetings assisted by identifying the characteristics of DSS clients that may be achieving relatively poor living standards outcomes under the current payment structure, and the factors that might contribute to these outcomes. In many instances, discussions were consistent with other anecdotal evidence regarding the relative circumstances of some client groups, such as sole parents and the aged, but in others they challenged commonly held beliefs about the relative positions of, for example, small versus large families. The meetings also highlighted the impact that state government policies, particularly in the areas of utility and education provision, can have on the ability of clients to cope on social security payments.

Other identified potential sources of living standards data include:

- the ABS. The ABS conducts a number of studies (e.g. the Household Expenditure Survey and the Census) that collect living standards data. Examples of the type of information available from these sources include housing conditions (e.g. incidence of overcrowding), health status, debt position, insurance coverage (e.g. possession of private health insurance, home contents and vehicle insurance), and participation in leisure activities, to name a few. The usefulness of ABS data collections in providing living standards information could be further explored during future stages of this project; and
- the Community Research Project being undertaken by the Strategic Development Division within DSS. The aim of the Community Research Project is to examine the potential of possible new services that will:
 - complement payments and services already provided by DSS; and
 - provide more opportunities and choices to enable people on low incomes to take action themselves to improve their living standards.

The Community Information Network (a community computer network) will be tested in a number of research locations throughout Australia, whilst the Action Research Projects will test new and innovative services aimed at improving the living standards of people on low incomes.

The evaluation of the Action Research Projects and the Community Information Network will include the analysis of participant data, an evaluative case study of each Action Research Project and the Community Information Network, and the comparative analysis of the efficacy of the projects to bring about improvements in living standards. The evaluation will generate in the research sites, a baseline measure (both subjective and objective items) of the living standard of people on low incomes, and identify the potential impact of possible new services and resources on living standards generally and the specified areas in particular.

In summary, whilst there are currently no consolidated and comprehensive sources of Australian living standards data, there are a number of potential sources of such information that the Department could consider exploring. However, it is unlikely that the living standards data derived from such diverse sources would be sufficiently comprehensive or compatible to either allow firm conclusions to be drawn regarding the adequacy of DSS payments or to provide a sound basis for policy initiatives. If the case for addressing the needs of DSS clients is to be made on the grounds of demonstrated inadequacies in living standards, it is likely that

a new survey would be required to identify those client groups achieving the poorest outcomes under the current payment structure, and the reasons why. This option is explored in more detail later in this report.

7. EXPLORING THE FIELD FOR A NEW APPROACH

7.1 CURRENT UNDERSTANDING OF THE ADEQUACY OF DSS PAYMENTS

It is difficult, on the basis of current published adequacy studies, to precisely identify those social security clients whose needs are not being met and to sustain a case for improving assistance accordingly.

Unfortunately, existing literature on poverty in Australia, including that using the Henderson Poverty methodology, has little to tell us about the constraints brought about by being solely, or largely, reliant on social security payments for income. It is not necessary to totally dismiss existing poverty measures in order to conclude that they offer little scope for assessing the adequacy of social security payments.

Nonetheless, current research on poverty and living standards does provide a range of tools which could be employed, to greater or lesser effect, in improving the assessment of payment adequacy. For the purpose of this report, the approaches are described as either prescriptive or descriptive. A prescriptive approach would nominate a specific and independent measure against which the adequacy of payments could be assessed, while a descriptive approach would identify some payments as being more or less adequate than other payments. This section provides an overview of these approaches, which are discussed in more detail in Appendix A.

7.2 PRESCRIPTIVE APPROACHES

Budget Standards

A **Budget Standards** approach would result in a benchmark based on the cost of a defined basket of goods and services. The composition of the basket would be defined with reference to a particular income unit (e.g. family or household) and a particular level of living (e.g. modest-but-adequate, subsistence or luxurious). Over time, the cost of the basket of goods and services will change in response to price movements and variations in community norms.

Budget Standards are widely used in Europe and the USA to inform judgements about the adequacy of benefit levels. Until recently, minimum social assistance levels in West Germany were set on the basis of a specified Budget Standard. The budget method is, at least in theory, transparent and straight forward. Through describing the consumption possibilities of a particular household with a particular income, it illustrates the consequences of adopting a particular adequacy benchmark or poverty line. Through being explicit about consumption outcomes, the budget approach builds upon the common understanding of being poor. As such, it could achieve widespread credibility.

However, through focusing merely on consumption, the Budget Standards approach takes a narrow view of well being. Furthermore, the precise nature with which Budget Standards are

specified can obscure the large number of subjective decisions, relating both to methodologies and standards, many of which are essentially arbitrary. These include decisions as to the standard of living to which the Budget Standard relates; determining the goods and services necessary to meet that standard; and ascertaining the quality and price that is attached to the items. Budget Standards can also be very time consuming to establish and maintain, particularly if one attempts to incorporate regional or cultural differentials.

Deprivation Standards

A **Deprivation Standards** approach to establishing adequacy benchmarks would entail a benchmark expressed either as a specific level of deprivation or as a level of income demonstrated to be associated with the prescribed level of deprivation. The adequacy of benefits would be ascertained by comparing outcomes for DSS clients against these benchmarks. Deprivation could be seen as the non-possession of certain goods; non-participation in certain activities; non-use of certain services; or other non-voluntary adverse social, personal and economic outcomes.

The Deprivation Standards approach provides a direct measurement of living standards and has a very high information content. In focusing on outcomes rather than inputs, it is able to capture subtle variations in circumstances which may significantly affect living standards. Through describing the circumstances of low income families in terms of their ownership of goods, participation in activities and access to resources, it is possible to present a whole view of their circumstances.

However, there are a number of significant difficulties in using the Deprivations Standards approach to set prescriptive benchmarks. A Deprivation Standards survey can provide researchers with a picture of the range and incidence of deprivation within a community, much as an income survey will do for cash income. It does not, however, determine at what level of deprivation the adequacy benchmark should be set. Most often, this level has been determined arbitrarily by researchers. While it is conceivable to determine the level drawing on public opinion, there is little evidence as to whether this produces reasonable outcomes.

There are also more general methodological concerns relating to the use of a Deprivation Standards approach to adequacy assessment. The choice of items about which data are gathered, the range of responses that are collected and the manner in which the data are used to rank households are often determined in an arbitrary fashion. The relative contribution of government and commercial services in determining living standards can be obscured. Very large sample populations would be required to cater for the range of factors and the degree of separation required to develop targeted policy responses.

A Subjective (or Consensual) Approach

Adopting a **Subjective (or Consensual)** approach would see benchmarks based on public opinion regarding an adequate level of income. Survey techniques would be employed to ascertain the prescribed income level and to assess the extent to which this reflects a shared public option. There are two principal variants to this approach. The first asks respondents to state the minimum income they think they need to achieve a specified outcome, which could

range from 'to make ends meet' through to 'to live comfortably'. The second asks respondents to identify the income needed by a hypothetical family to achieve the specified outcome.

The principal strength of this method is that benchmarks are defined by society rather than experts and, as such, they may be perceived as legitimate and socially realistic. In addition, it is relatively simple to operationalise with comparatively low data requirements. It is also clear as to what the measure is providing - a social perception of necessary incomes.

There are weaknesses associated with this approach. It is difficult to ensure a common understanding of what is meant by the 'specified outcome' without being overly prescriptive. Furthermore, through asking individuals to nominate their own minimum income requirement, it risks reinforcing existing patterns of inequality: groups characterised by low incomes are likely to be more modest in their assessment than high income groups. It has also been suggested that the majority of those surveyed are commenting on a situation with which they have limited familiarity and the accuracy of their assessment is, as such, questionable.

A Relative Approach

A **Relative** approach expresses benchmarks in relation to an indicator of economic well-being or income such as national income per capita or average or median earnings. The DSS pension benchmark of 25 per cent of AWE is an example of the Relative approach.

The Relative approach is simple to operationalise, transparent and, where applied to a community rather than an individual indicator (e.g. employment earnings), able to reflect changes in community well-being. It is useful for assessing changes over time and is widely used in international comparisons.

However, it is necessary to note that this method is essentially relative and usually totally arbitrary. It lacks any developed notion of adequacy and, in poverty line research, has been criticised as simply a crude measure of income distribution.

7.3 A DESCRIPTIVE APPROACH

There is broad concern that attempts to establish prescriptive benchmarks may be difficult to sustain academically or popularly. This concern is reflected in the debate over difficulties in setting prescriptive poverty line measures. This debate seems to conclude that attempting to set a single poverty line is unlikely to succeed either empirically or politically and it also may distract from the issue of addressing the needs of the most disadvantaged with the community.

Another approach to adequacy assessment is to focus on a methodology which does not seek to independently establish an adequacy benchmark with which either incomes or outcomes are compared but nonetheless allows the identification and prioritisation of client needs. A descriptive approach could draw on deprivation standards methodology to allow the consideration of client outcomes within a comparative framework. It could identify the characteristics of those achieving comparatively poor outcomes, thereby allowing conclusions to be drawn regarding the adequacy (or otherwise) of income levels.

The main strength of this approach is that it adopts a progressive and evolutionary approach to adjusting existing benchmarks which maintains the public consensus associated with the current social security structure and avoids the difficulties and controversies associated with attempting to set explicit, prescriptive benchmarks. It has a strong focus on outcomes and on equity between client groups and could provide a tool for setting priorities for additional assistance based on empirical evidence of deprivation. It would also be possible to extend the comparative analysis to the community generally in order to assess the extent to which living standards in the client community diverge from broader community standards.

Whilst avoiding a number of the more significant problems associated with prescriptive approaches, a descriptive approach would create some new difficulties. For example, it is difficult to account for the role and relative contribution of social wage elements and other non-cash factors. Increasing incomes may be an inappropriate response to inadequate outcomes. There is some risk of institutionalising underprivilege and associated undesirable coping strategies (such as poor dietary practices, unhealthy accommodation or even crime), although a sophisticated survey strategy can minimise this problem. Finally, as the descriptive approach does not prescribe an adequate income level, it would not be possible to deduce what quantum of additional income was required to make incomes adequate - it merely points in the direction of desirable change for individual groups.

8. IDENTIFYING A WORKABLE APPROACH - A PREFERRED FRAMEWORK

8.1 INTRODUCTION

This report sees merit in a composite framework which draws on both the Budget Standards and descriptive approaches. The descriptive approach is incorporated because of its strong focus on outcomes, its potential for providing a tool for setting priorities based on empirical evidence of deprivation and because of its emphasis on seeking to build on and refine existing relativities. Such an approach would allow the testing of the hypothesis that 'current payments are adequate for all clients' with a view to:

- identifying divergence in outcomes among clients;
- identifying client groups for whom outcomes are (relatively) inadequate;
- targeting resources to incrementally remove inadequate outcomes; and,
- in the longer term, identifying divergence in outcomes between clients and the population generally.

However, it is necessary to acknowledge that decisions regarding adequacy take place in the context of a broader community debate concerning income measures of poverty and the income requirements of particular households. While the descriptive approach goes some way to meeting the Departments needs, it is likely that the research community and public commentators will continue to take an active interest in income based measures of adequacy. As discussed earlier, the Budget Standards method has the potential to improve the relevance of such measures to Australian circumstances.

8.2 APPLYING A DESCRIPTIVE APPROACH

A number of issues need to be addressed in applying this methodology to benchmarking.

It is necessary to define those relationships which are to be tested. The benchmarks implicit in the relationship can then be tested with reference to behavioural data. In this context, it is necessary to determine the extent to which the sample population will be differentiated. For example, it would seem desirable to differentiate between those in the labour force and those not in the labour force, between those with dependent children and those without and between those who own their own homes and those who do not. It would be possible to extend the analysis to allow differentiation on the grounds of region of residence and age of the adult as well as child family members. However, the greater the degree of differentiation, the larger the data requirement if statistically significant results are to be produced. On the other hand, a lower degree of differentiation will result in less precision in the comparative process and less informed policy options.

Determining the nature of the data to be collected and developing an instrument (or instruments) to collect and analyse the data are tasks requiring a high level of expertise and, if undertaken, would significantly advance the understanding of living standards in Australia. In

effect, this represents an application of the Deprivation Standards methodology discussed above and the limitations of the methodology, discussed in that section, should be born in mind.

If this approach is implemented as a means of assessing adequacy, a further issue would be which of the apparent differences in living standards would be best addressed through adjustments to income support and which should be dealt with through other arms of policy.

Finally, the adoption of a descriptive approach has implications both for the ongoing assessment of adequacy and for the evaluation of policy responses. It is clear that adequacy is a dynamic concept. For example, the adequacy of DSS payments can be expected to vary if

- the social wage structure changes;
- social perceptions of need change;
- the living standard within the community changes; or
- other economic and social factors influencing the living standards of DSS clients change.

To be satisfied that initial assessments of adequacy remain valid and to assess the extent to which adjustments to the implicit benchmarks have addressed comparative disadvantage, living standards data will have to be gathered at regular intervals. The descriptive approach relies upon a direct measure of living standards, rather than an indirect measure such as cash income. As such, validation of the survey and the evaluation of policy responses would require the direct measurement of living standards to be repeated, perhaps on a regular basis.

It needs to be emphasised that the descriptive approach does not address the question of 'what is an adequate income'. It is limited to identifying groups with lesser outcomes. Further, should the most appropriate response to the identified deficiencies in outcomes be to increase income support, this method gives no indication as to the amount by which income support payments should be lifted.

On a methodological front, it shares many of the problems of the Deprivation Standards methodology. These problems, discussed more fully earlier in the paper, include:

- the choice of items about which data are gathered, the range of responses that are collected and the manner in which the data are used;
- the direct linking of deprivation to income levels may be seen to imply that raising income is the most appropriate or effective response to deprivation;
- the high data requirements, particularly if the method were to be utilised on an ongoing basis; and
- the lack of regard to the manner in which outcomes are achieved.

It also makes it difficult to differentiate two important factors:

- the extent to which non-cash factors are influencing living standard outcomes - questions of skill and opportunity are internalised; and
- by drawing a link directly between income support levels and outcomes, it may confuse the possible role of other government services.

However, some of the methodological concerns can be addressed by adopting a rigorous and sound approach to developing any survey instrument and analysing data so collected. In particular, attention would need to be paid to gathering data on non-cash influences, including access to government services, and to considering trade-offs which may be occurring. Furthermore, consideration of the outcomes would need to be sensitive to the prospect that increases in income support may not be the most appropriate policy response.

8.3 DEVELOPING BUDGET STANDARDS

The Project Team were unable to identify any comprehensive attempts to develop Budget Standards in an Australian context. To do so would undoubtedly require a significant investment of human and financial resources and would entail consideration of the following issues².

- What is the appropriate unit of analysis? It is necessary to choose whether budgets will be developed for a family, an income unit, a household or another defined unit. This decision may well be a consequence of the purpose for which the standard is being developed - for example, if used to set benchmarks of adequacy for social security payments, the social security definition of an income unit would be most appropriate.
- What is the standard of living which the budget standard will support? The unit of analysis and the level of living are the two central criteria for determining the composition of the consumption basket. The level of living needs to be specified explicitly.
- What lifestyle assumptions are associated with the specified living standard? In order to determine the composition of the goods and services basket, assumptions need to be made regarding the lifestyle of the income unit. This is a separate issue to the level of living. For example, are the members of the income unit in good health?; are they employed?; do they own a motor vehicle or use public transport?
- What items will be included in the commodity basket? It is necessary to determine all of the goods and services required to allow the designated income unit to meet the specified living standard given the lifestyle assumptions made. To draw up the commodity basket, it is necessary to specify which items will be included, in what quantity, of what quality, and of what lifetime.
- Is the commodity basket reflective of the opinions of consumers? It may be appropriate to verify the budget standard through community consultation,

² Based on unpublished material provided by Dr John Ernst, who was a contributing author to Bradshaw (1993).

- What prices should be attached to the items in the basket? It is necessary to make decisions regarding the manufacturer (brand), vendor, and the geographical location at which the price will be set.
- How can the budget standard be applied to other households? It is necessary to decide how, and to what extent, the budget standard would be modified to reflect the requirements of different households.
- How does the budget standard compare with observed expenditure patterns? It may be desirable to validate the budget standard by comparison with data reflecting actual expenditures by families.

Some of the difficulties that would need to be confronted in undertaking a Budget Standards analysis in Australia include:

- the treatment of regional differentials. Location of income units influences the goods and services they require, the availability of such services and their price. While this is true to a greater or lesser extent in all countries, the diversity within Australia of factors such as climate and population densities make this a particular problem. At the same time, the Budget Standards approach provides opportunities for addressing some of these problems **as long as sufficient resources are made available**. For example, the same basket of goods and services could be priced in different localities to reflect price differentials (for example in housing or food), or the contents of the basket could be varied to reflect the availability of, or requirement for, particular items (for example, certain foodstuffs or services such as child care may not be available in rural areas, and heating is likely to be more important in Canberra than Darwin); and
- the treatment of cultural differentials. The items contained in the Family Budget Unit Budget Standards reflect a particular, culturally specific approach to organising familial relationships and meeting family requirements. Such an approach may be applicable in a country with reasonable cultural or behavioural homogeneity. However, the degree of cultural diversity evident in Australia would require either a more comprehensive approach or making broader general assumptions.

9. CONCLUSION

This report has considered the issues associated with the development of benchmarks of adequacy for DSS payments and considered a range of approaches to improving the assessment of adequacy. It has suggested that there is no single best method for assessing the adequacy of incomes and concluded that judgements regarding adequacy are unavoidably subject to changing community views about living standards. Nonetheless, the report finds that there is considerable scope to better inform such judgements and current research into poverty provides useful methodological tools.

Whilst this report concludes that prescriptive measures alone fail to provide a firm basis for assessing income adequacy, it acknowledges that they are likely to continue to be widely used in the measurement of income poverty in Australia. In this regard, it is pleasing that work is in train to update some aspects of the Henderson measures. In particular, the Budget Standards approach appears to offer considerable scope for contributing to the development of contemporary measures reflecting Australian circumstances.

This report advances a composite framework for adequacy assessment for DSS purposes.

A descriptive approach is central to the framework because of its strong focus on outcomes, its potential for providing a tool for setting priorities based on empirical evidence of deprivation and its emphasis on seeking to build on and refine existing relativities. To implement a descriptive approach to adequacy assessment would require, as a first step, the development, testing and piloting of a survey-based methodology for measuring relative deprivation among social security clients. This exercise would be a necessary precursor to a decision regarding the full scale implementation of a descriptive approach, which would entail a major client survey.

The development of budget standards also has a significant role to play in the preferred framework due to its focus on the income requirements of households and the consumption trade-offs facing low income earners. It also offers a significant opportunity to contribute to the ongoing debate on income poverty in Australia.

APPENDIX A: BACKGROUND PAPER NO. 1

DETERMINING THE ADEQUACY OF INCOMES: A COMPARATIVE ASSESSMENT

A.1 EXECUTIVE SUMMARY

This paper examines the threshold issues associated with setting adequacy benchmarks, considers the theoretical bases for assessing adequacy and looks at some of the implications of their possible application in Australia.

The paper assumes that the principal criterion for assessing the adequacy of payments is the extent to which they allow the recipient to achieve social and economic outcomes. Describing the living standard expected to be achieved by social security clients is important in operationalising this criterion.

Establishing and maintaining a distinction between adequacy benchmarks and poverty lines is a contentious issue. Clearly, it is open to the Government of the day to synthesise all relevant inputs, which, in addition to poverty research, may also include aspects of current social and economic policy. In addition, 'adequacy' is an inclusive term and it may be suggested that an adequacy benchmark represents an income point where the Government is satisfied that opportunity exists for adequate outcomes to be achieved, rather than a point below which all incomes are considered inadequate. On the other hand, the widespread use of income measures of poverty contributes to the close association, in the public debate, of the adequacy of income with the existence of poverty.

Other issues of particular importance to developing adequacy benchmarks include whether the focus of assessment is the opportunity to achieve adequate living standards or adequate living standards are, in fact, being achieved. This would influence whether incomes or outcomes are the principal concern. It will also be necessary to consider the unit to which the measurement would be applied and to determine the relative roles of expert opinion and general public opinion in defining adequate living standards and adequate incomes.

Prescriptive approaches to adequacy benchmarking seek to provide an answer to the question: what level of income is adequate? There are a number of possible approaches, each with strengths and weaknesses. There is little general agreement among either academics or policy makers as to the single best approach.

Possible approaches include:

- the **Budget Standards** approach, which sets a benchmark based on the cost of a defined basket of goods and services. This approach builds upon the common understanding of being poor but takes a narrow view of well being. Budget Standards are resource intensive, both in initial development and in ongoing updating;

- the **Deprivation Standards** approach, which would see benchmarks set in relation to the actual (rather than possible) living standards of clients. However, the choice of items about which data are gathered can be criticised as arbitrary. Also, Deprivation Standards are resource intensive, both in initial development and in ongoing updating;
- the **Subjective (or Consensual)** approach would result in benchmarks set by public opinion as to the minimum level of income required to achieve a prescribed living standard. This would be ascertained through surveys. While the method is relatively simple to operationalise, respondents are often commenting on situations or income levels of which they have little experience; and
- the **Relative (or Statistical)** approach, under which benchmarks would be expressed as a proportion of some indicator of economic well-being, such as income. This method is simple and can reflect changes in community living standards. However, as implied in its name, this method is essentially relative and lacks a developed notion of adequacy.

Seeking to prescribe an adequate income level is likely to be contentious and there is broad agreement that there is no single right way to derive such a benchmark. It has been suggested that attempting to do so may distract effort from addressing the needs of the most disadvantaged within the community. An alternative is to focus on the adequacy of current payment levels. Through comparing client outcomes in a comparative framework, it is possible to systematically determine those clients achieving relatively poor outcomes and make incremental adjustments to payment relativities. Rather than setting a new benchmark, existing implicit benchmarks would be progressively and incrementally adjusted.

This approach relies on broad acceptance of existing structures and requires that a client reference group, for whom incomes and outcomes are assumed to be most adequate, be identified. Through utilising similar methodologies to the Deprivation Standards approach, it is prone to similar criticism and is also resource intensive.

There is no general consensus among the academic or policy communities regarding the most appropriate way to measure the adequacy of a given income level. However, no matter what approach is adopted, developing adequacy benchmarks will require explicit judgements regarding the lifestyle which one expects to be achieved by social security clients (even if only through identifying a client reference group).

Much will depend on the way in which the requirement is framed. In particular, a decision ought to be made as to whether benchmarks are to describe the level of income at which reasonable opportunity exists to achieve a certain living standard, or whether they are to describe the level of income at which a certain living standard is actually achieved. Perhaps, some synthesis of these two approaches may be most appropriate. A choice will also need to be made as to whether one wishes to prescribe an adequate income level or describe the adequacy of a current income level.

Finally, all of the approaches discussed may involve a move away from existing benchmarks. If the descriptive approach were adopted, any movement would be incremental and could start from a base provided by current benchmarks. However, if any of the prescriptive approaches were adopted, a clean break with existing benchmarks may be necessary.

A.2 INTRODUCTION

This paper examines alternate approaches to assessing the adequacy of incomes. It has three principal themes:

- threshold issues in establishing an adequacy benchmarking regime;
- the theoretical bases for assessing adequacy; and
- the issues associated with their possible application in Australia.

The paper considers how adequacy is assessed for a particular income unit (i.e. the base level) and how the structure of the income unit is defined. In order to provide insights into some of the practical aspects of assessing the adequacy of incomes, the attachment to Appendix A compares a limited range of adequacy measures with DSS payments. The development of equivalence scales is not addressed in detail.

A.3 THRESHOLD ISSUES

This section of the paper explores a number of threshold issues relating to assessing the adequacy of incomes generally and to the establishment of adequacy benchmarks for social security payments specifically. These issues are examined here in order to provide a context in which to consider, in detail, particular approaches to assessing the adequacy of income.

A.3.1 THE DIFFERENCES BETWEEN THE ASSESSMENT OF THE ADEQUACY OF TRANSFER INCOMES AND THE ASSESSMENT OF POVERTY

Designing a mechanism to assess the adequacy of transfer incomes can be argued to be fundamentally different to designing a mechanism for poverty assessment. Veit-Wilson has described the differentiation as 'a logical necessity' and also suggested that 'it would, from a democratic point of view, be of political benefit' (1987:205). Veit-Wilson identifies the following four principal issues that social security planners should have regard to in addition to considering the outcomes of poverty research (1987:206-7):

- the kinds and amounts of deprivation that are legitimately the concern of Government as opposed to those which are reasonably the province of the private individual;
- the extent to which the Government of the day should take account of the popular consensus regarding priorities in social security;
- the extent to which higher levels of income support is the appropriate response to particular forms of deprivation; and
- the degree to which the Government should take into account public opinion when adjusting benefit levels to reflect special needs, such as those of families of different composition, and other equivalence issues.

The flexibility of planners in responding to these questions place a significant distance between raw poverty research and appropriate Government response through income security transfers. Furthermore, it is clearly appropriate that, in setting and assessing the levels of social security transfers, the Government may impose expert or value judgements. As Veit-Wilson observes 'A Government might adopt conflicting approaches: a consensual line on deprivations but a rejection of populist prejudices (such as sexism or racism)' (1987:206).

Additional conceptual differences should be noted:

- as discussed later in this paper, if the object of an adequacy benchmark is income, then income is the direct measure of adequacy and outcomes are the indirect or proxy measure. This contrasts with the current trend in poverty research which is to consider outcomes as the object of principal interest and the level of income as an indirect or proxy measure for outcomes. This argument could be taken further to suggest that adequacy research is concerned with the **opportunities** provided by a certain level of income while poverty research is concerned with the income associated with a certain level of **outcomes**; and
- an adequate income benchmark does not rule out lower levels of income also being adequate. 'Adequate' is an inclusive rather than exclusive term. Clearly, there are a range of incomes which yield adequate outcomes. Although there is some risk of being accused of semanticism, it could be suggested that an adequacy benchmark represents a point where the Government is satisfied that opportunity exists for adequate outcomes to be achieved, rather than a point below which all outcomes are inadequate.

Although there are some clear and significant conceptual differences between the notions of adequacy and poverty, there are many common elements. In particular, any research into payment adequacy is likely to draw heavily on poverty research methodologies and maintaining a distinction between adequacy and poverty in the public arena would be problematic.

A.3.2 THE ASSESSMENT OF ADEQUACY AND INCOME AS A PROXY

To assess the adequacy of incomes requires the adoption of criteria, which may be different depending on one's perspective - it is not necessary, for example, that the adequacy criteria of the provider of income support will be the same as the criteria adopted by the recipient. As this paper is contributing to a project concerning options for DSS and the current Government in assessing the adequacy of DSS payments, it focuses on income adequacy from the perspective of a provider of income support. Even so, there are a range of possible criteria, including some which are likely to conflict. While the DSS Program Performance Statement specifies that one of the major objectives of social security programs is to provide clients with adequate incomes, it does not specify the criteria against which that adequacy may be assessed.

In order to give further consideration to possible strategies, this paper focuses on the adequacy of payments as reflected by the extent to which they allow the recipient to achieve social and economic outcomes (methods by which the level of outcomes may be set are considered later in this paper). This focus is consistent with the role of the social security

safety net in the prevention of poverty. In this context, poverty can be conceptualised as a failure or an incapacity, through lack of resources, to achieve certain outcomes (Ringen 1988:353-4).

However, other considerations may also have validity. For example, assessments of adequacy may be influenced by broader fiscal objectives, labour market incentives or judgements about community goals. Assessing income adequacy against these criteria is beyond the scope of this paper, although it is recognised that, in the end, compromises are likely to be made.

In applying the assumed criterion for assessing adequacy, it is necessary to determine precisely what is being measured. If, for example, we are concerned with the adequacy of incomes but we assess the adequacy of incomes through an examination of social and economic outcomes, then outcomes are serving as an indirect, or proxy, measurement for incomes.

However, if we are concerned with the adequacy of social and economic **outcomes** but we choose to use money income to indicate the adequacy of outcomes, then cash income becomes the proxy, or indirect, measure of outcomes. Information on incomes becomes important only in as much as it tells us about opportunities to exercise control over resources generally and for social and economic participation. As Ringen puts it 'Resources are things which do not have intrinsic value but which we can use to produce or to otherwise acquire things of intrinsic value' (1988:355).

Implicit in this conception is the need, where an adequacy benchmark (or poverty line) is expressed explicitly in cash income terms, to establish and verify the link between a given level of income and a desired level of outcomes. This theme is central to the options explored in this paper. Donnison, in the context of poverty, advances the argument in strong terms (1987:367):

'money based measures of poverty such-as disposable income only offer 'indirect' evidence about 'consumption or quality of life'... The link between the 'operational definition' (money) and the 'theoretical definition'(deprivation) must be firmly established before money figures can be relied on as a measure of poverty. To evade that task, and then to ask readers to believe that any evidence of inequality is proof of poverty ... is a lazy and dishonest procedure.'

A.3.3 WHAT IS ADEQUATE - THE ABSOLUTE / RELATIVE DEBATE

Consideration of payment adequacy is likely to generate some debate as to whether the concept of adequacy is a 'relative' or an 'absolute' notion. That discussion is likely to parallel the debate over whether poverty itself is more appropriately considered as an 'absolute' or a 'relative' concept.

Bradshaw, Mitchell and Morgan (1987:167) suggest that, after having gone underground during the 1940's and 1950's, poverty 'emerged in the early 1960s ... with a new conceptualisation, recast as relative poverty'. They argue that the relative conceptualisation improved the understanding of poverty within affluent countries and noted that the relative notion was often 'accompanied by the "vilification of the subsistence concept"'. However, it should also be noted that the concept of relative poverty is sometimes seen as a more generous

conception of disadvantage and that, as a consequence, the persistence of relative poverty in the 1980s is seen to be a product of research methodologies rather than a cause for significant policy concern. This debate is unfortunate and confusing. Ringen, for example, (1988:353) argues that:

'Poverty *is* relative: it is "always defined according to the conventions of the society in which it occurs" ... The relative understanding of poverty is firmly rooted in the writings of Adam Smith (poverty is to be without "whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without") ... There never was such a thing as an absolute concept of poverty and no one has argued that there should be.'

Where the conception of adequacy is accepted as a relative notion, the critical decision becomes the determination of those social conventions which are to be incorporated in the notion of adequacy. This decision is invariably subjective and a failure to embrace this subjectivity will frustrate attempts to establish benchmarks of income adequacy. Indeed, it has been argued that a perception that these concepts can be derived objectively and scientifically has, in the Australian context, contributed to a reluctance to formulate a practical and relevant standard of adequacy (Mitchell 1988:4-5).

While the methodological issues associated with setting adequacy standards will be discussed later in this paper, it should be noted that an accommodation of differing interests and aspirations will be necessary. This is because, although the views of clients, the general public, advocacy groups and government may overlap, a degree of conflict, or at least tension, is likely. As a consequence, this is a significant area in which subjective judgements will have to be made.

It may be preferable to make such subjective decisions explicit in the context of a statement of principle rather than through a series of individual decisions on specific aspects of living standards. This would make clear the context in which subjective judgements are being made. Examples include Mack and Lansley's 'Poor Britain', where items and activities considered necessary by at least 50 per cent of the population were included in a poverty assessment methodology (Mack and Lansley 1985), and the work of the Family Budget Unit, where items owned by more than 50 per cent of families were included in modest-but-adequate budgets (Bradshaw 1993:5). In the latter instance, professional and expert opinion was also used to modify decisions taken in accordance with the statement of principle.

A.3.4 OPPORTUNITY VERSUS ACTUAL OUTCOMES

Ringen argues (1988:354-5) that there are two separate conceptual definitions for poverty. The first, which he labels as a 'subsistence' definition, identifies as poor those people without the resources necessary to achieve a certain level of consumption. Ringen notes that this concept of consumption is highly relativistic and can easily be extended to include whatever additional items are considered necessary (1988:354). The second notion is described by Ringen as a 'deprivation' definition. It describes people as poor if their standard of consumption falls below that considered 'decent' within the community. Again, consumption can be interpreted as including all aspects of social and economic participation and as being highly relativistic.

The principal distinction between these two conceptions is that the former focuses on what could be achieved and the second on what is achieved. Opportunity as opposed to outcomes. This differentiation is particularly important in considering approaches to establishing benchmarks for the adequacy of social security payments. Ringen suggests that 'it can be argued, and I think irrefutably, that the modern welfare state, at least the European type, embodies the principle of equality of result. (1988:356)'

As such, Ringen favours a conception of poverty which concentrates on outcomes rather than opportunities.

Ringen's proposition that, in poverty research, emphasis should be placed on outcomes is persuasive. In Australia, this concern has been reflected in the work of Travers and Richardson(1993). Whether strategies to assess the adequacy of welfare assistance should focus on outcomes rather than opportunities is less clear. It is interesting to note that, where measures have been advanced as means for assessing the adequacy of Australian social security incomes (CIP 1975; Mitchell 1988), they have focused on the adequacy of incomes rather than the adequacy of outcomes. When considering the total impact of state provisions, it is possible to argue that in addition to actual outcomes, the state is also concerned with:

- the manner in which outcomes are achieved - that is, where positive outcomes in one area are achieved by compromise in another. An exclusive focus on outcomes risks institutionalising underprivilege and associated 'undesirable' coping mechanisms. For example, apparent consumption and social participation could be achieved at a cost of poor health or education outcomes for adults and children, through eroding the resources of friends and family or through illegal activity ranging from black economy trading through to theft; and
- the context in which outcomes are achieved. Collective social judgement may consider a greater degree of relative deprivation is acceptable for some than for others. As Veit-Wilson notes (1987:206), the Government may decide to accord higher priority to combating deprivation among the dependent and disabled and leave able-bodied adults without dependants to carry a greater level of disadvantage.

When considering one particular facet of the performance of welfare assistance, namely the adequacy of income support payments, it could also be suggested that a narrow focus on the relationship between income support payments and social and economic outcomes ignores the role of other services such as health, education, housing and human services. Raising incomes to combat deprivation assumes that private markets can meet the need (Veit-Wilson 1987:207) and implies that the community wishes to see all commodities allocated through market action.

However, it is likely that claims that welfare assistance is providing sufficient opportunities are likely to be unpersuasive if persistently poor outcomes are evident among certain groups. To be persuasive, any approach focusing on opportunities would also require validation against actual outcomes.

A.3.5 PRESCRIPTIVE VERSUS DESCRIPTIVE

It is also possible to differentiate between approaches to the measurement of income adequacy on the basis of whether they are prescriptive or descriptive.

Prescriptive approaches to poverty seek to identify, through a range of methods, a particular level of income which, for a defined income unit at a particular place and time, indicates a level of outcomes, or opportunities for outcomes, considered unacceptable within that community. This is the conventional poverty line approach, as exemplified by the Henderson Poverty Line methodology for instance. Similarly, a prescriptive approach to income adequacy would seek to define a particular level of cash income which, for a particular income unit, indicated that outcomes, or the opportunity for achieving outcomes, were consistent with some community notion of adequacy.

Prescriptive approaches suffer common problems:

- it may be difficult (or impossible) to defend the chosen level of income as preferable to an alternate level;
- the precise nature of the specification can be seen as implying a conceptual precision which does not generally exist; and
- it may be implied that a prescriptive measure is behaviourally prescriptive (for example, Townsend's pioneering use of Deprivation Standards to measure poverty (1979) included '*has not had a cooked breakfast most days of the week*' as a deprivation indicator. This attracted the criticism on the grounds that it was attempting to prescribe a pattern of behaviour for the population).

On the other hand, a descriptive approach considers outcomes not against set criteria but in a comparative framework. It identifies the characteristics of those achieving comparatively poor outcomes, thereby allowing conclusions to be drawn regarding the adequacy (or otherwise) of income levels.

Some of the difficulties with descriptive approaches include the following:

- if current income levels were inadequate, it would not be possible to deduce what quantum of additional income was required to make incomes adequate - the approach would merely be able to point in the direction of desirable change for individual groups;
- it is difficult to account for the appropriate role and relative contribution of social wage elements and other non-cash factors. Increasing incomes may be an inappropriate response to inadequate outcomes; and
- the risk of institutionalising underprivilege and associated undesirable coping strategies (such as poor dietary practices, unhealthy accommodation or even crime).

In practice, any adequacy benchmarking strategy is likely to incorporate both prescriptive and descriptive elements. If prescriptive benchmarks were adopted for major elements of the

social security system, it may be considered too complex and resource intensive to develop prescriptive benchmarks to cover every aspect of the system. Within a descriptive system of benchmarks, it may be necessary to have a prescriptive benchmark for some base element, for example, single age pension for home owners, in order to provide a basis against which other relativities could be assessed. An important issue in deciding the balance will be a precise determination of what question is being answered: either 'are current incomes adequate?' or 'what is an adequate level of income?'

A.3.6 THE INCOME UNIT

Whilst this paper acknowledges the importance of income unit specification, a thorough exploration of the issues is beyond the scope of the paper. A brief overview is nonetheless important to set the scene for later discussion.

Ideally, the design of income units is influenced by the notion of sharing. All members of an income unit are assumed to benefit equally from the total resources available to that income unit. However, whether assumptions on sharing should be normative or based on actual behaviour remains open to debate.

Developing assumptions on a normative basis has some advantages. It allows value judgements concerning the rights and responsibilities of individuals and families and avoids institutionalising behavioural constraints flowing from the current distribution of income. On the other hand, by ignoring current practice it risks unfairly penalising some and advantaging others.

This dilemma is easily demonstrated, for example, in the case of older persons. If payments to elderly persons were sufficiently low to require economically active children to contribute significantly to allow basic levels of consumption and social participation, a behavioural approach to sharing would see older persons incorporated in an income unit with their economically active children and no longer treated independently. On the other hand, a normative approach may choose to consider elderly people as having a right to be independent of economically active children. The income flowing to those elderly persons with opportunities for sharing would be ignored and the relatively weaker economic position of those without opportunities for sharing would also be ignored.

The development of the necessary value judgements is a highly subjective exercise about which there may be little agreement either among experts or among the community at large. Theoretical outcomes may have little relationship with actual practice. For example, if every adult person was considered individually, it would not be possible to counter for the relative disadvantage of persons living alone.

Drawing on actual behaviour is likely to be less controversial, as it would reflect shared community values. However, it would be difficult to capture the complexity of current sharing arrangements. Significant simplifying assumptions would be required. As mentioned earlier, there is also a risk of institutionalising current behavioural constraints.

Again, this is an area where a mix of descriptive and normative approaches is likely and in which subjective judgements will be required to be made.

A.3.7 THE ROLE OF EXPERTS VERSUS THE SUBJECTIVE TOTALITY - TOWNSEND'S DEFENCE OF EXPERT OPINION

Much recent research into poverty and living standards (Bradshaw 1993 being a notable exception) has placed primary reliance on Consensual or Subjective methodologies. The prevailing thoughts are summarised well by Mack and Lansley who state (1985:47):

'our view is that this approach removes the concept of poverty from the arbitrary exercise of judgement by 'experts', politicians and governments, where up to now it has remained firmly entrenched'.

The approach of Mack and Lansley represented a significant departure from the approach taken by Townsend in his 1979 study 'Poverty in the United Kingdom' which saw a significant role for expert opinion. In response to criticism of his approach, Townsend subsequently (1981:477) outlined three tiers of conceptualisation of poverty.

The first related to 'concepts ... (as)... the creatures of the arbitrary exercise of power' and included the different meanings ascribed to the term by dominant elites such as the professions, government and the bureaucracy. The notion of poverty was observed by Townsend to be applied in an 'elitist and subjugatory' way.

The second tier, which was seen as the immediate goal of social scientists, concerned seeking a 'more democratic representation of interests'. This notion could be assumed to align with the consensual approach to assessing disadvantage and setting poverty standards.

However, Townsend went on to define a third tier as one seeking to incorporate 'the even more elusive pantheon of scientific "objectivity"'. In commenting further on this matter, Townsend was explicit in stressing the need to avoid 'the indoctrinated quality of our social perceptions'.

The relative reliance on expert judgement on one hand and community consensus on the other is of particular importance when evaluating the adequacy of social security payment rates. There are two principal concerns with overt reliance on consensual measures.

The first relates to the base adequacy of payments. There is a risk that persistent low income will lead to a lowering of expectations in relation to health, housing and educational outcomes. It is not clear whether payments should be considered adequate if, for example, they allow clients to meet their dietary expectations but not to meet minimum dietary standards set by government health authorities.

Secondly, demographic groups characterised by low incomes may be likely to have lower expectations with regard to necessary income levels than are groups with higher average incomes. This contention is consistent with research into consensual poverty measures in Australia by Saunders and Matheson (1992). Estimates of poverty among the population generally were higher using the consensual poverty measure than the Henderson poverty measure. However, for sole parents, who are generally characterised by low incomes, estimates of poverty were lower using the consensual poverty line than the Henderson poverty measure.

It is possible to argue that measures of adequacy for social security payments should take particular effort to avoid reinforcement of existing disadvantage and need to be more sensitive to this criticism than poverty measures. Alternatively, it could be suggested that unless expert standards are actually adopted by the DSS client community, actual standards of consumption will conform to historical patterns and additional income provided to allow expert standards to be met will be diverted. While few would question the responsibility of Government to reject popular prejudices in the allocation of resources, for the Government to do so may involve selective rejection of the Consensual approach and the imposition of expert judgement (Veit-Wilson 1987:206).

Ultimately, the risk of paternalism needs to be balanced against the risk of reinforcement of disadvantage. The matter is unlikely to be resolved to the satisfaction of all and should most likely be addressed pragmatically. As Veit-Wilson(1987:197) notes:

'The question remains here as always: what philosophical position, what set of facts and values, gives Townsend or any observer the privileged status of experts to identify other people's false consciousness or reinterpret the authentic needs of a society? It is an ancient but lively question.'

A.4 PRESCRIPTIVE APPROACHES TO ADEQUACY

A.4.1 THE BUDGET STANDARDS (OR CONSUMPTION BASKET) APPROACH

General Description

Adopting a Budget Standards approach to benchmarking would result in a benchmark based on the cost of a defined basket of goods and services.

The composition of the basket is defined with reference to a particular income unit (e.g. family or household) and a particular level of living (e.g. modest-but-adequate, subsistence or luxurious). Ideally, for income units in different circumstances or with different characteristics (for example families of different composition), a different basket of goods and services is developed. Where this is not possible, some form of equivalence scale is necessary to adjust the benchmark.

Over time, the cost of the basket of goods and services will change as the cost of goods and services change. The content of the basket would need to be reviewed regularly to ensure it remains relevant to community norms.

Methodological Issues

A number of critical decisions are necessary in the development of a Budget Standard. These are discussed in Table A1.

Table A1: Issues in the development of Budget Standards

1. What is the appropriate unit of analysis?	It is necessary to choose whether budgets will be developed for a family, an income unit, a household or another defined unit. This decision may well be a consequence of the purpose for which the standard is being developed – for example, if used to set benchmarks of adequacy of social security payments, the social security definition of an income unit would be most appropriate
2. What is the standard of living which the budget standard will support?	The unit of analysis and the level of living are the two central criteria for determining the composition of the consumption basket. The level of living needs to be specified explicitly.
3. What lifestyle assumptions are associated with the specified living standard?	In order to determine the composition of the goods and services basket, assumptions need to be made regarding the lifestyle of the income unit. This is a separate issue to the level of living. For example, are the members of the income unit in good health? Are they employed? Do they own a motor vehicle or use public transport?
4. What items will be included in the commodity basket?	It is necessary to determine all of the goods and services required to allow the designated income unit to meet the specified living standard given the lifestyle assumptions made. To draw up the commodity basket, it is necessary to specify which item will be included, in what quantity, of what quantity, and of what lifetime.
5. Is the commodity basket reflective of the opinions of consumers?	It may be appropriate to verify the budget standard through community consultation.
6. What prices should be attached to the items in the basket?	It is necessary to make decisions regarding the manufacturer (brand), vendor, and the geographical location at which the price will be set.
7. How can the budget standard be applied to other households?	It is necessary to decide how, and to what extent, the budget standard would be modified to reflect the requirements of different households.
8. How does the budget standard compare with observed expenditure patterns?	It may be desirable to validate the budget standard by comparison with data reflecting actual expenditures by families.

Source: Based on unpublished material provided by Dr John Ernst, who was a contributing author to Bradshaw (1993).

Until recently, a Budget Standard approach was utilised in West Germany to set the minimum social assistance levels (Deleeck et al 1992:3). In the UK, the Family Budget Unit (now an educational charity and private limited company) promotes the use of Budget Standards by business and finance organisations, as well as by the legal profession and in the courts (Family Budget Unit 1994).

It is also possible to develop partial Budget Standards. Perhaps the most widely known is the official poverty line of the US Social Security Administration developed in 1964 by Orshansky (Deleeck et al 1992:3). In this approach, dietary standards were used to develop a minimal basket of food goods, The cost of this basket was multiplied by three to cover other expenses. This multiplier reflected the average ratio of food to total household expenditure within the general population. However, the official status of this measure is currently under review. It has been subject to much criticism and its future is uncertain.

Strengths

The budget method is, at least in theory, transparent and straight forward. Through describing the consumption possibilities of a particular household with a particular income, it illustrates the consequences of adopting a particular adequacy benchmark or poverty line. As Piachaud observes (1993:119):

'... budget standard studies have illuminated the literature on poverty. It is only by trying to spell out the consequences of particular requirements in financial terms - or alternatively spelling out what a particular amount of money will purchase - that one can get a solid impression of what the particular standard represents.'

Through being explicit about consumption outcomes, the budget approach builds upon the common understanding of being poor: that is, 'not having the means to procure comforts or necessities of life'(The Concise Oxford Dictionary). As such, if well founded, it could achieve widespread credibility.

Although its prescriptive nature implies inflexibility, the Budget Standards approach has the capacity to accommodate a wide range of variables and situations. By being explicit about the precise contents of the budget, it would be relatively simple to respond to regional price differentials by costing the budget in different localities. Similarly, as the base budget is comprehensively specified, it would be a relatively straightforward matter to consider the impact on the family of a change in circumstances such as the presence of a child with a disability.

Another strength of the explicit nature of the Budget Standard approach is its capacity to accommodate differing levels of living. As Bradshaw points out(1993:237):

'... if any reader disagrees with the budget that has been drawn up, if they believe there is something included in the budget that does not represent what they understand to be a modest-but-adequate or low cost budget, they can take it out. And if there are things which have been left out which they think should be put in, they can incorporate these, and change the budget.'

Similarly, those who suggest that a budget is too generous can be challenged to identify those items which they consider should be removed, or to identify cheaper alternatives to satisfying that requirement.

Weaknesses

The Budget Standards approach has been subject to criticism on a number of grounds. Perhaps the most significant criticism relates to the narrow view of well being incorporated in the Budget Standards approach. As Bradshaw notes'... a list of goods and services ... does not encompass the whole range of elements of a standard of living.' (Bradshaw 1993:237)

Furthermore, the precise nature with which Budget Standards are specified can obscure the large number of subjective decisions, relating both to methodologies and standards, many of which may be essentially arbitrary. These include:

- the standard of living to which the budget standard relates, including how the appropriate living level is decided;
- the goods and services necessary to meet that standard, and how this is decided; and
- the quality and price that is attached to these items.

Budget Standards can be time consuming to establish and also to maintain, particularly if they were to cater for a wide range of situations and locations. Not only do prices need to be updated regularly but, from time to time, it will be necessary to repeat the exercise from scratch to ensure that it reflects changes in community practices and expectations.

It is also necessary to note that Budget Standards are essentially illustrative. They should not be seen as an attempt to define an adequate standard of living (or poverty line) as do, for example, Townsend (1979) and Mack and Lansley (1985), but rather as an attempt to outline the financial consequences of a specified and defined living standard. Confusion over this distinction may result in Budget Standards being seen as an attempt to prescribe a particular pattern of consumption for low income families.

Possible Application in Australia

There has been no attempt to develop comprehensive Budget Standards in an Australian context. To do so would undoubtedly require a significant investment of human and financial resources. Some of the issues involved in undertaking a Budget Standards analysis in Australia include:

- the treatment of regional differentials. Location of income units influences the goods and services they require, the availability of such services and their price. While this is true to a greater or lesser extent in all countries, the diversity within Australia of factors such as climate and population densities make this a particular problem. At the same time, the

Budget Standards approach provides opportunities for addressing some of these problems **as long as sufficient resources are made available**. For example, the same basket of goods and services could be priced in different localities to reflect price differentials (for example in housing or food), or the contents of the basket could be varied to reflect the availability of, or requirement for, particular items (for example, certain foodstuffs or services such as child care may not be available in rural areas, and heating is likely to be more important in Canberra than Darwin); and

- the treatment of cultural differentials. The items contained in the Family Budget Unit Budget Standards reflect a particular, culturally specific approach to organising familial relationships and meeting family requirements. Such an approach may be applicable in a country, with reasonable cultural or behavioural homogeneity. However, the degree of cultural diversity evident in Australia would require either a more comprehensive approach or making broader general assumptions.

A move towards a Budget Standards approach to benchmarking may well require a clean break from existing benchmarks.

A.4.2 THE DEPRIVATION STANDARDS (OR BEHAVIOURAL) APPROACH

General Description

Adopting a Deprivation Standards approach to establishing adequacy benchmarks would entail ascertaining the extent and distribution of non-voluntary deprivation within the client community.

Deprivation could be seen as one or more of the following:

- the non-possession of certain goods;
- non-participation in certain activities;
- non-use of certain services; and
- other non-voluntary adverse social, personal and economic outcomes.

The main feature of this approach is its focus on outcomes rather than incomes. It attempts to build a picture of the living patterns of the population. Once information in this regard has been collected, there are many ways in which benchmarks of adequacy can be derived or otherwise developed.

Implicit in Townsend's pioneering Deprivation Standards work (Townsend 1979) was the proposition that deprivation would have a strong correlation to income. He theorised that, once sufficient information was known regarding deprivation, it would be possible to identify a level of income below which the rate of accumulation of disadvantage rose markedly. This level of income would form a 'natural' poverty line. This threshold has proved elusive (Piachaud 1993:124).

The difficulty in demonstrating an internally derived threshold has required researchers to make decisions in the manner in which thresholds are set. Mack and Lansley (1985) used a combination of subjective and arbitrary judgements. They first surveyed a sample population to ascertain the extent to which certain outcomes (e.g. heating to the living areas of the house, refrigerator, holidays) were considered necessary. Armed with this subjective information, they then made two arbitrary decisions: firstly, that outcomes described as necessities by more than 50 per cent of the survey population would be considered necessities for the purpose of the study; and secondly, that those who could not afford three or more necessities were in poverty. It is interesting to note that this threshold is expressed entirely in terms of deprivation and the concept of cash income has been side-stepped altogether.

If it were possible to show a strong correlation between income, adjusted for certain personal circumstances such as family size, and outcomes (as suggested by Townsend (1979)), it would also be possible to relate this level of deprivation with an income level. This may have been useful on the grounds that it would enable reasonable and informed assumptions regarding an income unit's outcomes based on a limited range of information.

Methodological Issues

The fundamental elements of a Deprivation Standards approach are deceptively simple. First, establish the performance of a sample population against a list of deprivation indicators. Second, decide a threshold level of deprivation consistent with the objectives of the exercise.

Behind this apparent simplicity are a range of complex judgements often reflecting the personal opinion of the researcher. Some of these matters are discussed below.

- What information is gathered in regard to the living standards of the sample population?

There are a number of dimensions to this question.

Firstly, what aspects of living standards are to be incorporated into an index of deprivation? For example, data could relate to consumption of goods and services similar to those included in a Budget Standards basket. Alternatively, it could concern interpersonal relationships and social participation.

Secondly, what specific matters are raised in questions? Clearly not every aspect of activity can be included and there is some risk that specific questions may reflect preconceptions on the part of the researcher.

Thirdly, how are the above matters decided? They may, for example, be determined by 'expert' opinion or in a more consensual manner through survey or focus group work.

- How are these questions framed?

In social research questions are often 'closed' rather than 'open' to limit the range of possible responses. Under such circumstances, it is necessary to determine what limited range of responses will be permitted.

Questions can call for objective or subjective responses. For example, respondents may be asked whether they have sufficient heating within their houses, calling for a subjective response. Alternatively, they may be asked whether they are able to heat the living areas of their house to 21 degrees celsius during winter months, which calls for an objective response.

- How is the information regarding living standards converted into a single index of deprivation?

The objective of Deprivation Standards research is to rank income units in accordance with their outcomes rather than their incomes. As such, it is necessary to develop a methodology for compositing the data on living standards.

There are several options for researchers:

- Townsend (1979:251) identified some 60 forms of deprivation. From these, he selected sample of twelve which were representative of the larger group and appeared to be

correlated to income. A deprivation index was developed by scoring each household one point for each of the twelve forms of deprivation experienced. Households were then ranked according to their point score;

- Mack and Lansley (1985:178-183) follow Townsend by, in their main findings, equally weighting each of the deprivation indicators to rank households. As the authors had (somewhat arbitrarily) defined a poverty threshold as not being able to afford three or more 'necessities' (as defined by survey results), their prime concern was to rank households either above or below this threshold. However, they extended the analysis further to consider the relative importance of the necessities lacked by certain households, in order to identify those whose deprivation may more or less seriously affect their lives. The importance of each necessity was determined by the proportion of the survey population who defined the item or activity as necessary;
- Richardson and Travers (1989:7-10) describe their development of two standard of living indices (SINDEX and SINDEX2). Through the Australian Standard of Living Survey, they had collected over 40 separate pieces of information regarding the consumption, participation and financial status of each member of the survey population. In SINDEX, the authors incorporate only variables which, in their opinion, are clearly linked with material well-being. Variables associated with lifestyle and affluence are excluded. SINDEX2 was based on SINDEX with the inclusion of variables relating to affluence. Unlike the previous two examples, individual variables were not weighted equally but rather by the extent to which the variable was correlated with equivalent income.
- Hallerod (1994) provided a weighting to each of the deprivation indicators in relation to the proportion of the sample who identified the subject of the indicator as a 'necessity'. An index of deprivation was arrived at by applying the weighting to the individual indicators and summing the result.

Strengths

This approach has a very strong focus on all facets of the living standards of the groups in question and a very high information content. In focusing on outcomes rather than inputs, it is able to capture subtle variations in circumstances which may significantly affect living standards. As Piachaud notes:

'This work and other work in this tradition does serve an extremely important function: it identifies those social and personal activities from which those in poverty (however defined) are generally, but not inevitably excluded.' (1993:124)

Through describing the circumstances of low income families in terms of their ownership of goods, participation in activities and access to resources, it is possible to present a whole view of their circumstances.

Weaknesses

There are four principle areas of concern relating to the use of a Deprivation Standards approach to adequacy assessment.

- The choice of items about which data are gathered, the range of responses that are collected and the manner in which the data are used to rank households is often arbitrary. This can conflict with the perception that the Deprivation Standards approach is providing an objective picture of living standards.
- Directly linking deprivation to income levels through adequacy benchmarks may be seen to imply that raising income is an appropriate or effective response to deprivation. This obscures the role of other government and commercial services in determining living standards. For example, where households reside in areas lacking appropriate commercial or government services, increasing incomes may do nothing to redress inadequate outcomes. It would be necessary to institute a process to consider whether the unacceptable deprivation was best addressed through increasing incomes, increases general services, or targeted assistance to address specific difficulties facing the client. This process may require the involvement of other government agencies.
- Data requirements are high, particularly if the method were to be utilised on an ongoing basis, and the analysis complex. Large sample populations would be required to cater for the range of factors of interest to the social security system (such as number of adults in the income unit, numbers and age of children and housing status). Such survey would have to be conducted on a regular basis to verify the assumed links between deprivation and income and to adapt the concept of deprivation in accordance with changing community perceptions.
- Deprivation Standards approaches focus on actual outcomes without regard to the manner in which they are achieved. This has limitations - for example, it does not account for the level of dis-saving or inter-family sharing that may be required to avoid deprivation. It also ignores undesirable coping strategies that may be adopted, such as trading of outcomes in one area to avoid deprivation in others (not heating the house so as to afford food) or illegal practices (avoiding tax through black economy activities).

Possible Application in Australia

As with the Budget Standards approach, Deprivation Standards methodology implies the independent development of specific benchmarks and as such would require a clean break from existing benchmarks.

Significant new work would be required to establish a methodology to use relative deprivation methodology to set adequacy benchmarks. Following this foundation work, regular, large scale collections of data on living standards would be required, firstly to establish and then to maintain benchmarks.

Some implications can be drawn from the work of Travers and Richardson (1989, 1993).

Firstly, they argue that, in Australia, 'only large differences in income translate into clear differences in standard of living'(1989:34) and, within smaller ranges of the income distribution (for example around the level at which poverty lines have commonly been set) 'equivalent income does not correlate well with living standards'(1979:35). As such, these conditions are also likely to apply around the levels at which social security payments are set and imply that it may be difficult to establish a reliable, useful relationship between deprivation and income at low income levels. Benchmarks may, therefore, have to be set in behavioural rather than income terms, creating significant additional data requirements.

Secondly, the authors conclude that 'the evidence that those who have low incomes are not thereby excluded from ordinary life is overwhelming'(1989:35). Three interpretations of this conclusion come to mind:

- that there are no significant differences between the living standards of those on low incomes and those on slightly higher incomes;
- that a larger sample and more detailed questioning is required to identify relative disadvantage in behavioural terms; or
- that relative disadvantage in Australia is related more to the ease and quality of living standards than the actual activities and commodities people enjoy.

The first interpretation implies that behavioural deprivation analysis may have limited application in Australia while the second suggests it could be useful but require significant resources. The third interpretation implies that a very subjective view of living standards may be required in order to differentiate sufficiently to establish adequacy benchmarks.

A.4.3 THE SUBJECTIVE (OR CONSENSUAL) APPROACH

General Description

The Subjective (or Consensual) approach attempts to generate estimates of what the general public consider to be an adequate level of income. It seeks to employ survey techniques to ascertain the prescribed income level and to assess the extent to which this reflects a shared public option.

The philosophy underlying this approach is well expressed by Saunders and Matheson:

'.. it is entirely consistent, (some would argue, absolutely essential) with the recognition that acceptable living standards are artefacts of society to seek the measurement of the former in the views of the public.' (1992:20)

Saunders and Matheson suggest that there are two principal variants to this approach (1992:20).

- The first asks respondents to state the minimum income they think they need to achieve a certain outcome. The specified outcome reflects a living standard to which the researcher

is attempting to attach a cash income. It could range from 'to make ends meet' through to 'to live comfortably'.

- The second asks people to identify commodities or activities which they consider to be a part of achieving a given level of living. As with the first variant to the Subjective approach, the research sets the level of living through the framing of the survey question. The resultant range of economic and social variables can either be used to construct an index of the extent to which households meet the defined level of living or could be ascribed a cash value and used to describe the income level necessary to achieve this level of living. For the purposes of this paper, the former method is discussed as a variant of the Deprivation Standards method (viz. Mack and Lansley 1985) while the latter constitutes a variation of the Budget Standards approach (viz. Bradshaw 1993).

Methodological Issues

There are a number of questions which need to be resolved in order to apply the Subjective approach to developing adequacy benchmarks.

It is first necessary to resolve what level of living is to be reflected in the Consensual measurement. This may well be found in the purpose for which the line is to be developed. If there is no clear conception of the level of living to be supported by the income, this lack of clarity would be transferred to the question itself and it would reduce the prospect of achieving some form of consensus.

It is then necessary to determine whether the respondents will comment on the requirements of a particular standard income unit or on the requirements of their own income unit. An example of the former is the Morgan Gallup Poll minimum income question:

'In your opinion, what is the smallest amount of money a family of four - two parents and two children - need a week to keep in health and live decently - the smallest amount for all expenses including rent?' (Saunders and Matheson 1992:23)

The latter is reflected in the question formulated by Saunders and Matheson for their own work:

'In your opinion what is the very lowest income that your household would have to have to just make ends meet?' (1992:28)

If the former option is employed, a technique must be adopted for modifying the outcome so that it may be applied to other family types.

It is necessary to determine how the output is treated. On one hand, it is possible to simply average the responses for each particular income unit about which information is gathered. On the other hand, it is possible to use more sophisticated approaches in order to account for the influence of respondents incomes on their opinions (Saunders and Matheson 1992:27-35).

In either case, it is important to determine what factors will be taken into account in differentiating among households. It is possible, for instance, to respond only to variations in

family size. On the other hand, it is possible to include factors such as housing status, labour force status and age.

Finally, it is necessary to address the issue of whether a consensus or merely an average is sought. While it is undoubtedly possible to generate an average response to the given question, what are the implications should no consensus be evident?

Strengths

The principal strength of this method is that benchmarks are defined by society rather than experts and as such they may be perceived as legitimate and socially realistic.

In addition, it is relatively simply to operationalise. The quantity of data is smaller than required in either of the Budget Standards of Deprivation Standards approaches. It is also clear as to what the measure is providing - a social perception of necessary incomes.

Weaknesses

However, there are weaknesses associated with this approach. The first is in the wording and interpretation of the minimum income question which, in order to avoid imposing the researchers' preconceptions, must call for a highly subjective response. Secondly, through asking individuals to nominate their own poverty line, it risks reinforcing existing patterns of inequality. Groups characterised by high incomes are inclined to nominate high poverty lines while groups characterised by low incomes are inclined to nominate lower poverty lines.

In addition, as they respond to expectations, Consensual poverty lines have the potential to fluctuate markedly over time in response to factors other than rising prices and community living standards.

It has also been suggested that the majority of those surveyed are commenting on a situation with which they have limited familiarity (Saunders and Matheson 1992:25). Whilst this is relatively obvious in regard to the questions which focus on a nominated family type (a family consisting of two adults and five children probably may have little appreciation of the cost of living of a single aged person), it is also true where respondents are asked to comment on their own minimum income requirements. For example, it could be argued that a single person who has enjoyed a high income for an extended period may have little understanding of the lowest level of income on which a single person may reasonably live.

Finally, in Australia, the extent of the variation in responses to the minimum income question has led researchers to question whether any real consensus exists regarding minimum adequate income levels (Saunders and Matheson 1992:72).

Possible Application in Australia

As with both the Budget and Deprivation Standards methodologies, this approach implies the independent development of specific benchmarks and as such would require a clean break from existing benchmarks.

This approach has been developed in the Australian context. The longest standing approach has been the Morgan Gallup Poll Minimum Income Question for which annual responses are available from 1945 onwards. The Morgan approach centred on asking all respondents to identify a minimum income requirement for a family of two adults and two children.

A more sophisticated approach was adopted by Saunders and Matheson (1992) utilising data collected by Dr Elim Papadakis of the University of New England as part of a broader study into attitudes towards welfare. Poverty lines developed in this exercise were often quite high with little additional allowance for children. The authors compared their Consensual poverty lines to social security payments as at 30 June 1988 (see Table A2). Under this methodology, DSS payments were most adequate to couples with children, followed by couples without children, followed by sole parents, followed by the single aged, followed by the single non-aged.

Due to the significantly lower data requirements and simpler analysis, developing and updating Consensual benchmarks could be achieved at lower resource cost than either of the Deprivation or Budget Standards approaches.

Table A2: Comparison of Consensual Poverty Lines with Social Security Payments at 30 June 1988

Family Type	Consensual Poverty Line (\$ per week)	Social Security Payments (\$ per week)	Ratio
Single adult			
Non-aged	252.9	112.1	2.26
Aged	209.6	120.1	1.75
Couple, no children			
Non-aged	281.3	200.1	1.41
Aged	238.1	200.1	1.19
Couple, one child	294.6	227.8	1.29
Couple, two children	309.6	257.9	1.2
Couple, three children	313.5	289.7	1.08
Couple, four children	341.9	321.4	1.06
Sole parent, one child	278.5	159.8	1.75
Sole parent, two children	293.5	189.9	1.55
Sole parent, three children	297.4	221.7	1.34

Source: Saunders and Matheson (1992:71)

Notes: Payment rates refer to age pension in the case of the aged, to (then) supporting parent's benefit in the case of sole parents, and to adult unemployment benefit in all other cases. Payments in respect of children are included, rent assistance is excluded. Children are assumed to be under 13 years of age.

A.4.4 THE RELATIVE (OR STATISTICAL) APPROACH

General Description

This approach expresses benchmarks in relation to an indicator of economic well-being or income such as national income per capita or average or median earnings.

Methodological Issues

While benchmarks established using this method are essentially arbitrary, the extent to which the benchmark is arbitrary is variable. On one hand arbitrariness could be total - for example, the 50 per cent of median equivalent family income level typically used in international comparisons of poverty. Alternatively, it could be partial and draw on expert opinion - for example, the assessment by Professor Henderson that anyone earning less than 56.5 per cent of average earnings in Australia in August 1973 was very poor (CIP 1975:13).

The selection of the indicator of income or economic well-being is also subjective. One example is the decision to use the total average weekly earnings for males (MTAWE) as a benchmark for the single rate of pension in Australia. The use of MTAWE also demonstrates some of the other problems associated with the Statistical method. Firstly, the chosen indicator should accurately reflect the underlying variable it was chosen to represent. For example, movements in MTAWE, by ignoring changing patterns of women's labour force participation, may fail to accurately reflect movements in community earnings. Secondly, the chosen indicator should be directly comparable with the variable to which it is being compared. For instance, MTAWE is a gross income context when it is broadly accepted that living standards are more closely associated with after tax (net) income.

It is also possible to express benchmarks in terms of a replacement rate: that is, the ratio between a person's social security income and the private income they previously earned. The specification of income replacement rates is a strong feature of both the administration and comparative assessment of social insurance schemes. It is also used in setting long-term retirement incomes policies in Australia and overseas. But it is more useful in assessing policies which have income maintenance as an objective rather than provision of adequate incomes to those most in need.

Strengths

The Relative or Statistical method is simple to operationalise, transparent and, where applied to a community rather than an individual indicator (e.g. employment earnings), able to reflect changes in community well-being. It is useful for assessing changes over time and is widely used in international comparisons.

Weaknesses

However, it is necessary to note that this method is, by definition, essentially relative and generally derived in an arbitrary manner³. It lacks any developed notion of adequacy and, in poverty research, has been criticised as simply a crude measure of income distribution. It is also suggested that equivalence scales greatly influence the social distribution of poverty estimated by a Statistical or Relative method (Deleeck et al. 1992:4).

Possible Application in Australia

In Australia, the Statistical method has been used by Harding and Mitchell in assessing changes in poverty during the 1980s (Harding and Mitchell 1992), while the current DSS benchmark for age pension of 25 per cent of MTAWWE is an example of the application of the Statistical method to benchmarking.

The DSS family benchmarks, although derived with reference to studies concerning the costs of children, are expressed as a proportion of the combined married rate of pension, which for the last twenty years has held a constant ratio with the single rate of age pension and thus are also examples of the application of the Statistical method to benchmarking, although with more of an expert base than the benchmark for age pension.

As such, the adoption of this approach to benchmarking could see the retention of existing benchmarks or it could see the adoption of new benchmarks. It may be appropriate to respond to the reservations regarding the use of MTAWWE. For example, full-time adult average weekly earnings (both ordinary time and total) are currently about the same level as MTAWWE and movement in this variable over time might more accurately reflect general income standards in the community.

A.5 A DESCRIPTIVE APPROACH TO ADEQUACY⁴

A.5.1 GENERAL DESCRIPTION

This discussion of descriptive approaches to adequacy assessment focuses on a methodology which does not seek to establish an adequacy benchmark against which either incomes or outcomes are assessed. Rather, through comparing outcomes within a relative framework, it seeks to identify those client groups who are achieving relatively inadequate outcomes.

Its development is, in part, a response to concerns that no single prescriptive benchmark is free from valid criticism and that reliance on any single prescriptive approach may generate controversy which, in turn, may detract from efforts to assist those most in need.

³ Although Fuchs (1965, 1969) argued that attempts to assess low income lines 'scientifically' often generated outcomes at around 50 per cent of median income. As such, the adoption of a relative measure would be more efficient and would generate outcomes not significantly different from more exhaustive approaches.

⁴ This section of the paper draws heavily on possibilities raised during discussions at the first meeting of the DSS Adequacy Project Advisory Group on 8 June 1994.

This methodology seeks to build on and refine existing relativities. As a starting point, it hypothesises that all payment levels are adequate and that clients in differing circumstances can achieve similar outcomes i.e. that the relativities in the existing payment structure are appropriate. This hypothesis is tested against actual outcomes with a view to:

- identifying divergence in outcomes among clients;
- identifying client groups for whom outcomes are (relatively) inadequate; and
- adjusting existing base levels and relativities (where this is the most appropriate policy response) to incrementally remove inadequate outcomes.

A.5.2 METHODOLOGICAL ISSUES

A number of issues need to be addressed in applying this methodology to benchmarking.

It is necessary, for example, to define those relationships which are to be tested. To test the adequacy of DSS payments in relation to broad community standards, it is necessary to identify either a specific level of outcomes which are assumed to be acceptable or a reference group within the sample population for whom outcomes are assumed to be acceptable. The benchmarks implicit in the relationship between payments to this group and to each other group of interest can then be tested with reference to behavioural data.

In this context, it is necessary to either validate the choice of reference point or explain why such explicit validation is unnecessary. It is also necessary to determine the extent to which the client population (other than those in the reference group) will be differentiated. For example, it may be reasonable to differentiate between the unemployed and sole parents, between those with dependent children and those without and between those who own their own homes and those who do not. It would also be possible to extend the analysis to allow differentiation on the grounds of region of residence and age of the adult as well as child family members.

Alternatively, it is possible to employ a descriptive approach to considering the relative adequacy of DSS payment levels to different client groups. This approach allows the identification of groups within the client population who, compared with the client population overall, are experiencing relatively high levels of deprivation. It would not allow conclusions to be drawn regarding the adequacy of basic DSS payments but it would allow priorities for adjusting payment relativities to be determined. Whilst it would not require the identification of a reference group nor the extension of the survey to the broader community, it could be undertaken as a precursor to such a broad assessment.

In determining the relationships which are to be tested, a balance between precision and pragmatism would be required. The greater the degree of differentiation in the relationships, the larger the data requirement. On the other hand, the lower the degree of differentiation, the less precise the comparative process.

It would then be necessary to determine the nature of the data to be collected. In effect, this represents an application of certain aspects of the Deprivation Standards methodologies.

Many of the issues associated with this question are the same and will not be discussed in detail in this section.

There are three further methodological issues to be resolved. The first relates to the construction of a mechanism to undertake a comparative assessment of outcomes for different client groups.

The second relates to determining which of the apparent differences in living standards are most appropriately addressed through income support and which are more appropriately dealt with through other arms of policy.

Thirdly, it is necessary to find some way of assessing the extent to which adjustments to the implicit benchmarks have addressed the comparative disadvantage, This may require regular large scale client surveys.

In many ways, this approach represents a systematisation and expansion of current policy practice.

A.5.3 STRENGTHS

The main strength of this approach is that it adopts a progressive and evolutionary approach to adjusting benchmarks which maintains the public consensus associated with the current social security structure and avoids the difficulties and controversies associated with attempting to set explicit, prescriptive benchmarks.

It has a strong focus on outcome and on equity between client groups. It would also be possible to extend the comparative analysis to the community generally in order to assess the extent to which living standards in the client community diverge from broader community standards.

By drawing heavily on Deprivation Standards concepts and methodology, the approach maintains a strong focus on all facets of the living standards of the client population and provides a very high information content. By focusing on outcomes rather than inputs, it is able to capture subtle variations in circumstances which may significantly affect living standards. Furthermore, through describing the circumstances of clients in terms of their ownership of goods, participation in activities and access to resources, it is possible to present a whole view of their circumstances and provide a broadly understandable basis for policy response.

Finally, it provides a ranking of client subgroups according to levels of deprivation and as such provides a valuable guide for prioritising assistance.

A.5.4 WEAKNESSES

It needs to be emphasised that the descriptive approach does not address the question of 'what is an adequate income'. It is limited to identifying groups with lesser outcomes. Further, should the most appropriate response to the identified deficiencies in outcomes be to increase

income support, this method gives no indication as to the amount by which income support payments should be lifted.

On a methodological front, it shares many of the problems of the Deprivation Standards methodology. These problems, discussed more fully earlier in this paper, include:

- the often arbitrary nature of the choice of items about which data are gathered, the range of responses that are collected and the manner in which the data are used;
- that the direct linking of deprivation to income levels through adequacy benchmarks may be seen to imply that raising income is the most appropriate or effective response to deprivation;
- the high data requirements, particularly if the method were to be utilised on an ongoing basis; and
- the lack of regard to the manner in which outcomes are achieved.

It also makes it difficult to discern two important factors:

- the extent to which non-cash factors are influencing living standard outcomes - questions of skill and opportunity are internalised; and
- by drawing a link directly between income support levels and outcomes, it may obscure the possible role of other government services.

A.5.5 POSSIBLE APPLICATION IN AUSTRALIA

The descriptive approach represents, in many regards, a systematisation of existing policy practices. Full implementation could entail the following steps:

- determining whether to employ a client reference group, for whom incomes and outcomes are assumed to be adequate, and if so, the nature of that group. This decision could be entirely arbitrary, based on anecdotal evidence or verified against outcomes achieved in the broader community;
- identifying those factors which will define the relationships to be tested (such as payment category, number and age of dependent children, housing status, private income, gender etc.) and deriving the implicit relativities defined by these relationships. These relativities become the benchmarks that will be tested;
- determining the nature of the data that will be collected. It may include any aspect of social, economic and private outcomes for members of the defined income unit;
- comparing outcomes for client groups and identifying groups experiencing relatively poor outcomes and the nature of those outcomes;

- identifying which of the poor outcomes are most effectively addressed through higher income transfers and modifying current benchmarks accordingly; and
- where income support relativities have been modified in response to the above findings, evaluating the impact of such changes on client living standards.

A.6 CONCLUSION

This paper has examined a range of threshold issues associated with developing adequacy benchmarks for social security payments and provided an analysis of some of the alternative approaches that could be adopted. In this discussion, a number of themes have emerged.

Firstly, it should be noted that there is no general consensus among the academic or policy communities regarding the most appropriate way to measure the adequacy of a given income level.

Secondly, no matter what approach is adopted, developing adequacy benchmarks will be compromised if the desired lifestyle which is to be achieved by social security clients is not described. The concept of adequacy does not stand in isolation - the question of 'adequate for what?' remains critical.

Thirdly, much will depend on the way in which the requirement is framed. In particular, the question of whether benchmarks should describe the level of income at which a reasonable opportunity exists for people to achieve a certain living standard, or whether they should describe the level of income at which a certain living standard is- in fact, achieved, must be addressed. A choice will also need to be made as to whether one wishes to prescribe an adequate income level (for example, an adequate income for a sole parent with two children is \$XXX per week) or describe the adequacy of current income level (for example, the current payment to a sole parent with two children is inadequate).

Finally, all of the approaches discussed are likely to involve a move away from existing benchmarks, at least, to some degree. If the descriptive approach were adopted, the likely movement would be incremental and could start from a base provided by current benchmarks, while if any of the prescriptive approaches were adopted, a clean break with existing benchmarks would be more likely.

ATTACHMENT TO APPENDIX A

COMPARING AUSTRALIAN SOCIAL SECURITY INCOMES WITH OUTCOMES OF ALTERNATIVE ADEQUACY METHODOLOGIES

INTRODUCTION

This discussion provides broad comparisons between current Australian social security incomes and a range of prescriptive adequacy methodologies. DSS payment rates are compared with the outcomes of-

- Consensual Approach (Saunders and Matheson 1992);
- Budget Standards Approach (Bradshaw 1993);
- partial Budget Standards Approach (National Council of Welfare 1994 - Canada);
- Relative Approach (Harding and Mitchell 1992); and
- Composite Approach (the Henderson methodology) (IAESR 1994).

There has been no attempt to derive a comparative measure based on the Deprivation Standards methodology. The most recent domestic and international work (Travers and Richardson 1993, Mack and Lansley 1985) has either not attempted, or been unable to, explicitly associate income levels with defined levels of disadvantage.

By expressing the outcomes of a range of studies in comparable terms, this appendix highlights the extent to which choice of methodology could influence perceptions on adequacy. However, while acknowledging the high degree of variability among outcomes, it may be possible to observe certain consistent themes regarding the relative position of certain groups, for example, sole parents.

METHODOLOGY

Simple methodologies have been adopted to convert research findings into a comparable base unit of currency. Results are for broad indicative purposes only and should not be interpreted as an attempt to estimate the most likely outcome should such methodologies be applied in Australia today. The conversion methodologies are outlined below.

The Consensual Approach

The findings, originally published by Saunders and Matheson (1992) in June 1988 dollars, have been updated to June 1994 dollars based on movements in the Australian consumer price index (CPI). Whilst it may be possible to argue that it would have been appropriate to increase the estimates in line with movements in community wages, the most appropriate form

of updating would be dependent upon whether survey respondents, in estimating a minimum income requirement, had primary regard to the cost of living or to average wages.

The Budget Standards Approach

The modest-but-adequate and low income Budget Standards developed by the UK Family Budget Unit at York (Bradshaw 1993) have been updated to May 1994 using the UK CPI. They have then been converted to Australian dollars using exchange rates published by the Reserve Bank of Australia and adjusted in accordance with the Comparative Price Levels published by the OECD.

Comparative Price Levels reflect the purchasing power parities for final consumption expenditure and, as such, have been used in preference to Purchasing Power Parities for GDP as a means of adjusting for the differential in living costs between Australia and the United Kingdom.

A partial Budget Standards Approach (National Council of Welfare 1994)

Estimates of low income thresholds in Canada for 1992, based on the Statistics Canada partial Budget Standards methodology, were published by the National Council of Welfare in 1994. This approach attempts to estimate income levels associated with disproportionately high rates of expenditure on 'necessities'. They were updated to May 1994 Canadian dollars using the Canadian CPI, converted to Australian dollars using exchange rates published by the Reserve Bank of Australia and adjusted in accordance with the Comparative Price Levels published by the OECD.

The Relative Approach (Harding and Mitchell 1992)

Harding and Mitchell's estimate of 50 per cent of median equivalent family income for 1989/90 (Harding and Mitchell 1992) has been updated to May 1994 in accordance with movements in all persons average weekly earnings. The estimate is adjusted for different family types using the OECD equivalence scale.

A Composite Approach (the Henderson methodology)

The Henderson poverty methodology constitutes a composite approach to adequacy assessment. The base poverty measure is best viewed as a relative concept, initially being determined as a proportion of average weekly earnings and subsequently updated in accordance with movements in household disposable income per capita. On the other hand, the equivalence scales were developed using a Budget Standards methodology.

The Henderson Before Housing poverty lines, as published by the IAESR, are employed in preference to the After Housing measure as the Social Security payment rates used in the comparison are intended to cover housing costs.

RESULTS

Notwithstanding the extensive simplifying assumptions that have been necessary in order to generate this comparison, it is clear from Table A3 that outcomes vary significantly in line with the choice of methodology. There is significant variability in the base levels, which for single people range from \$125 per week (low income budget standards) to \$565 per week (modest but adequate, owner occupier budget standards) per week and for couples from \$242 per week (Henderson out of work force) to \$554 per week (modest but adequate, owner occupier budget standards).

Similarly, there is significant variation in both the absolute and relative costs of children. For example, the cost of two children to a childless couple ranges from \$35 per week (consensual) to \$255 per week (modest but adequate, private renter, budget standards), while for a single person the cost of two children ranges from \$51 per week (consensual) to \$339 per week (modest but adequate, private renter, budget standards). As a proportion of the income level accorded a couple, the additional cost associated with two children ranged from IO per cent. (a couple under the consensual methodology) to 68 per cent (a sole parent under the modest but adequate, private renter, budget standards approach).

Tables A4 and A5 demonstrate the extent to which DSS payments meet the requirements of various family types under differing methodologies. Caution should be exercised in interpreting this data - given the extent of simplifying assumptions made, it would not be appropriate to place reliance on the absolute value of any particular estimate. Nonetheless, it is possible to determine common threads under the differing methodologies.

Generally speaking, DSS payments go least far towards meeting the requirements of single non-aged persons and sole parents. Under some approaches (the low income Budget Standard and the Median Income approach), couples with children fared much the same as sole parent families.

Under most methodologies, DSS payments went furthest to satisfying the requirements of single aged persons and couples with no dependants. However, the Consensual methodology suggests that DSS payments go furthest to meeting the requirements of couples with many children.

CONCLUSION

Consideration of the potential outcomes of various prescriptive methodologies indicates significant variability both in the base estimate of adequacy / poverty and in the relative treatment of additional members of the income unit. Without a clear conceptual basis for preferring one methodology to another, it is difficult to suggest that any particular set of outcomes could be adopted with certainty.

Notwithstanding, there are some common threads among the various approaches. A comparison of the outcomes to DSS payment levels suggests that, generally speaking, DSS payments went furthest to satisfying the requirements of single aged persons and couples with no dependants while they went least far towards meeting the requirements of single non-aged persons and sole parents.

Table A3 Comparison of Poverty Methodology Outcomes - June 1994 dollars

Income Unit		DSS Payments		Consensual# Saunders & Matheson	Budget Standards#			Partial Budget Standards# Canadian		Relative # Median Income	Composite	
Adult	Kids	Base	Private Rental		Family Budget Unit		Low Income Public Rental	City> 500,000	Rural		in WF	out of WF
na: non-aged a:aged					Modest but Adequate Private Rental	Owner Occup. \$						
1 na	0	\$147.05	\$181.25	\$318	\$356	\$565		\$310	\$211	\$144	\$211.45	\$171.46
1a	0	\$159.05	\$193.25	\$263	\$282	\$265	\$126	\$310	\$211	\$144	\$211.45	\$171.46
1	1	\$216.60	\$193.25	\$350				\$421	\$286	\$217	\$271.46	\$231.43
1	2	\$259.35	\$296.95	\$369	\$695	\$739	\$261	\$535	\$364	\$289	\$328.58	\$288.58
1	3	\$302.10	\$345.00	\$374				\$616	\$419	\$361	\$385.73	\$345.74
2 na	0	\$265.30	\$297.50	\$353	\$499	\$555		\$421	\$286	\$246	\$282.86	\$242.86
2 a	0	\$265.30	\$297.50	\$299				\$421	\$286	\$246	\$282.86	\$242.87
2	1	\$308.05	\$345.65	\$370				\$535	\$364	\$318	\$340.02	\$300.02
2	2	\$350.80	\$388.40	\$389	\$754	\$798	\$333	\$616	\$419	\$390	\$397.17	\$357.17
2	3	\$393.55	\$436.45	\$394				\$673	\$458	\$462	\$454.32	\$414.33

DDS – includes maximum rate pension or benefit and, where appropriate, guardian allowance, basic and additional family payment, and rent assistance.

Saunders and Matheson - (1992) P. 71 updated in line with movements in the CPI.

Henderson as published by the IAESR, University of Melbourne.

Family Budget Unit - Bradshaw (1 993) P. 173,174, 209, increased using UK CPI and converted to \$A using RBA exchange rate data and OECD Comparative Prices.

Partial Budget Standards - National Council of Welfare (1 994) p. 3 Increased by Canadian CPI, converted to \$A using RBA exchange rate data and OECD Comparative Prices.

Estimates rounded to the closest dollar.

**Table A4 Poverty Methodology Outcomes as a Proportion of base DSS payments
June 1994**

<u>Income Unit</u>		<u>DSS Payments</u>		<u>Consensual#</u> Saunders & Matheson	<u>Budget Standards#</u>			<u>Partial Budget Standards#</u> Canadian		<u>Relative #</u> Median Income	<u>Composite</u>	
Adult	Kids	Base	Private Rental		Family Budget Unit		Low Income Public Rental	City> 500,000	Rural		in WF	out of WF
na: non-aged	a:aged				Modest but Adequate Private Rental	Owner Occup.						
1 na	0	1	1.2	2.2	2.4	3.8		2.1	1.4	1	1.4	1.2
1a	0	1	1.2	1.7	1.8	1.7	0.8	2	1.3	0.9	1.3	1.1
1	1	1	1.2	1.6				1.9	1.3	1	1.2	1.1
1	2	1	1.1	1.4	2.7	2.8	1	2.1	1.4	1.1	1.3	1.1
1	3	1	1.1	1.2				2	1.4	1.2	1.3	1.1
2 na	0	1	1.1	1.1				1.6	1.1	0.9	1.1	0.9
2 a	0	1	1.1	1.1				1.6	1.1	0.9	1.1	0.9
2	1	1	1.1	1.2				1.7	1.2	1	1.1	1
2	2	1	1.1	1.1	2.1	2.3	1	1.8	1.2	1.1	1.1	1
2	3	1	1.1	1				1.7	1.2	1.2	1.2	1.1

DSS - includes maximum rate pension or benefit and, where appropriate, guardian allowance, basic and additional family payment, and rent assistance.

Saunders and Matheson - (1992) P. 71 updated in line with movements in the CPI.

Henderson as published by the IAESR, University of Melbourne.

Family Budget Unit - Bradshaw (1993) p. 173,174, 209, increased using UK CPI and converted to \$A using RBA exchange rate data and OECD Comparative Prices.

Partial Budget Standards - National Council of Welfare (1994) p. 3 increased by Canadian CPI, converted to \$A Using RBA exchange rate data and OECD Comparative Prices.

Table A5 Poverty Methodology Outcomes as a Proportion of DSS payments including rent assistance - June 1994

<u>Income Unit</u>		<u>DSS Payments</u>		<u>Consensual#</u> Saunders & Matheson	<u>Budget Standards#</u>			<u>Partial Budget Standards#</u> Canadian		<u>Relative #</u> Median Income	<u>Composite</u>	
Adult	Kids	Base	Private Rental		Family Budget Unit		Low Income Public Rental	City> 500,000	Rural		in WF	out of WF
na: non-aged	a:aged				Modest but Adequate Private Rental	Owner Occup.						
1 na	0	0.8	1	1.8	2	3.1		1.7	1.2	0.8	1.2	0.9
1a	0	0.8	1	1.4	1.5	1.4	0.7	1.6	1.1	0.7	1.1	0.9
1	1	0.9	1	1.4				1.7	1.1	0.9	1.1	0.9
1	2	0.9	1	1.2	2.3	2.5	0.9	1.8	1.2	1	1.1	1
1	3	0.9	1	1.1				1.8	1.2	1	1.1	1
2 na	0	0.9	1	1.2	1.7	1.9		1.4	1	0.8	1	0.8
2 a	0	0.9	1	1				1.4	1	0.8	1	0.8
2	1	0.9	1	1.1				1.5	1.1	0.9	1	0.9
2	2	0.9	1	1	1.9	2.1	0.9	1.6	1.1	1	1	0.9
2	3	0.9	1	0.9				1.5	1	1.1	1	0.9

DSS - includes maximum rate pension or benefit and, where appropriate, guardian allowance, basic and additional family payment, and rent assistance.

Saunders and Matheson - (1992) p. 71 updated in line with movements in the CPI.

Henderson as published by the IAESR, University of Melbourne.

Family Budget Unit - Bradshaw (1993) P. 173,174, 209, increased using UK CPI and converted to \$A using RBA exchange rate data and OECD Comparative Prices.

APPENDIX B: BACKGROUND PAPER NO. 2

DETERMINANTS OF LIVING STANDARDS - THE RELATIVE CONTRIBUTION OF CASH AND NON-CASH FACTORS

B.1 EXECUTIVE SUMMARY

This paper examines the issue of whether cash income is a good indicator of living standards, looking at the reasons why cash income has been commonly used by researchers when examining living standards and some of the arguments as to why it may not accurately reflect a person's standard of living. The paper also identifies some of the factors which may have a major impact on an individual's or family's standard of living but which are not generally considered in a measure of cash income. These include things such as aspects of need (such as family size, housing status and additional costs faced by different family types), access to goods and services provided by government, aspects, of financial circumstances (such as asset holdings the value of non-employed time and financial support from family and friends) and personal attributes.

If it were possible to identify the relative contribution of non-cash factors to a person's or family's standard of living, the more important factors may be able to be incorporated explicitly in a benchmark. Alternatively, a better understanding in this area may suggest policy responses other than lifting cash transfers as most appropriate.

While some work has been done on extending the concept of income to include items such as those noted above, little work has been done on actually identifying the relative contribution of cash income and non-cash factors to living standards. On the basis of this, the paper looks at some of the issues involved in developing a possible approach to identifying the contribution of non-cash factors. Such an approach is likely to rely heavily on the Deprivation Standards method developed by Townsend (1979), Mack and Lansley (1985) and Richardson and Travers (1989) because of the focus of this method on outcomes, that is, on the actual living standards of individuals, rather than on their incomes.

B.2 INTRODUCTION

Assessment of living standards often focuses on the levels of cash income of particular groups rather than their outcomes in terms of living standards. The reasons for this include the fact that income data are readily available, it is relatively simple to rank people according to their level of income and the use of income data is generally accepted. However, the influence of non-cash factors on living standards may be significant. For the purposes of the discussion in this paper, non-cash factors are defined as including both things that governments can directly affect, such as social wage expenditure (often referred to as non-cash benefits), as well as other factors which may be considered to be outside the responsibility of governments but which they may be able to influence. These include aspects of a person's or family's level of need, their personal attributes, their financial circumstances and their access to family support.

This paper explores the role of non-cash factors in generating different living standards for income units with similar cash incomes. It also seeks to develop a possible approach to identify the relative importance of non-cash factors as well as ways in which the most important non-cash factors could be incorporated in the structure of social security payments.

Section 3 examines the use of cash income as a proxy for living standards, the main reasons for using cash income and the deficiencies of using cash income as the sole indicator of living standards.

Section 4 looks at factors other than cash income which can affect a family's standard of living. These include differences in a family's needs, such as the size of the family and their housing status, as well as the additional costs faced by families in different circumstances. Some of these factors, such as the size and composition of families, may be accounted for by adjusting cash income using an equivalence scale. Other non-cash factors which may affect living standards include access to goods and services provided by government (such as health, education, housing and transport), asset holdings, availability of goods and services received in-kind from family and friends, the value of non-market activities (such as the value of leisure and home production) as well as an individual's personal attributes (such as their resourcefulness and their expectations).

Section 4 also identifies what non-cash factors are currently taken into account by the Department of Social Security (DSS) when assessing whether a person is eligible to receive a payment and the level of their entitlement.

In establishing benchmarks of adequacy, it would be important to have a sound understanding of those non-cash factors which have a significant influence on a person's or family's living standards. Background Paper 1 outlines two types of approaches to establishing benchmarks. The prescriptive approaches seek to identify an adequate level of income. If the relative contribution of non-cash factors were better understood, prescriptive benchmarks could be refined to reflect the differential distribution of important non-cash factors. In contrast, the descriptive approach focuses specifically on the adequacy of current payment levels and the adjustment of these levels on an incremental basis. A developed understanding of the influence of non-cash income factors on living standards is central to determining the most appropriate response to apparent disadvantage. These issues are discussed in Section 6.

Section 5 discusses the Deprivation Standards approach to measuring poverty which has been developed by Townsend (1979) and Mack and Lansley (1985) for the UK and Travers and Richardson (1993) for Australia. This discussion is provided as background for Section 6. A more detailed discussion of the use of this approach in setting adequacy benchmarks is covered in Background Paper 1.

Section 6 examines a possible approach to identifying the relative importance of non-cash factors for living standards based on the Deprivation Standards approach and the main difficulties associated with such an approach.

Some non-cash factors, such as the additional costs of sole parenthood and employment, could be incorporated in a benchmark through the use of equivalence scales. However, it is likely that the effect of certain non-cash factors would be more difficult to incorporate. For example, differential access to government services may require a range of benchmarks

because of the wide variation in access levels. Poor outcomes may be better addressed through means other than increasing cash income. Section 6 concludes with a discussion of how information gained from an assessment of the relative importance of non-cash factors could be used to improve the structure of the social security system to better account for need.

B.3 USE OF CASH INCOME TO MEASURE LIVING

STANDARDS AND ITS DEFICIENCIES

The main purpose of this section is to outline the main reasons for using cash income to measure living standards and the main problems associated with relying solely on cash income.

B.3.1 THE USE OF CASH INCOME TO MEASURE LIVING

STANDARDS

Ringen (1988) distinguishes between direct and indirect definitions of welfare. Direct definitions consider that people are poor if their standard of consumption is seriously below that regarded as decent by the society in which they live. Ringen calls this the 'deprivation' definition. Ringen argues that if welfare is defined directly, it should also be measured directly with an emphasis on outcomes such as consumption and a focus on equality of result rather than an equality of opportunity (Ringen, 1988:355).

Indirect definitions consider that people are poor if they do not have the resources necessary to achieve a minimum level of consumption. Ringen calls this the 'subsistence' definition. Indirect measures of welfare look at available resources such as income and focus on equality of opportunity.

Ringen (1988:356) argues that the focus should be on direct measures of poverty because the modern welfare state tends to be concerned with equality of result. However, direct measures of welfare are relatively underdeveloped compared to indirect measures. The focus in much research has therefore been on inputs (income) rather than outcomes in terms of living standards.

Cash income has commonly been used in measuring changes in poverty, inequality and standard of living, largely because the receipt of income allows for the consumption of goods and services which greatly affect living standards. Income data are also readily available, reasonably easy to collect and have been generally accepted as a measure with which people can be ranked. There are also a number of difficulties associated with measuring non-cash factors. Townsend (1979:177-78) noted some of these difficulties, such as the need to collect a large amount of information and identifying the appropriate weighting different factors should be given.

The extent to which cash income is a good proxy for standard of living is influenced by which type of income is used. In its concept of 'private income', the Australian Bureau of Statistics (ABS) (1992) includes income from wages and salaries, business profits, investment income (including property), superannuation and non-government income such as maintenance. 'Gross' income comprises private income as well as income from social security payments. This is consistent with the definition of gross income as noted by Townsend (1979).

'Disposable' income is gross income less net taxes and, therefore, represents the cash income potentially available for people to consume.

These definitions of income have also been used by Raskall and Urquhart (1994) who argue that disposable income is the most generally accepted cash income concept for assessing living standards. Bradbury, Doyle and Whiteford (1990:8) argue that while disposable income is not identical to living standards (because it excludes things such as the effects of government spending on education, health and housing), it 'is probably the most significant single component of overall living standards for most families'. Private income and gross income are likely to be less adequate as proxies for living standards because they exclude the redistributive effect of taxation and transfer payments.

B.3.2 DEFICIENCIES ASSOCIATED WITH USING CASH INCOME

The Deprivation Standards method, as developed by Townsend (1979), Mack and Lansley (1985), Ringen (1985) and Travers and Richardson (1989) focuses on the non-achievement of particular outcomes (such as the lack of certain items, the lack of access to services and the lack of access to aspects of social participation). Researchers using this method (such as Travers and Richardson) have argued that cash income is poorly correlated with living standards.

There are several reasons why unadjusted income may not provide a good indication of standard of living. One major reason is that needs differ between families. Needs are affected by things such as whether or not there are dependent children in the family and the family's costs of housing and employment.

Using equivalent income may take into account needs to a large extent. Richardson and Travers (1989) sought to examine whether equivalent income is a good proxy for living standards and found that, on average, the higher the level of equivalent income, the higher the standard of living. However, they also argued that, within any income group, there is a large dispersion in standard of living, with a person's ranking on equivalent income being different from their ranking on standard of living in many cases (Richardson and Travers, 1989:33-35). The methodology used by Richardson and Travers is detailed in Section 4.

Income does not identify what access families and individuals have to other resources, such as government services, employer provided fringe benefits and gifts. It also fails to recognise the value of leisure. Two families receiving the same income may differ markedly in the hours worked to earn this income and their living standards therefore may differ.

Further, while income data are more readily available than measures of other aspects of living standards, income is still difficult to measure accurately. Indeed, Travers and Richardson (1990) note that the main deficiency of cash income is that it neglects saving and dis-saving. They argue that income is only a good proxy for consumption (and therefore standard of living) if income were measured after tax, all goods and services currently consumed were purchased out of the income unit's current income and there was no saving or dis-saving.

Income fluctuates markedly over a lifetime. Current income does not take into account assets that were built up in times of prosperity. It also does not consider that people on similar

incomes may have vastly different future prospects. For example, cash income does not factor in investment in human capital. "le a student and an elderly person may have a similar income, the student can be confident that low income is likely to be only a temporary situation. Students may also be able to borrow to improve their living standards on the basis that they may receive higher future income from which loans can be repaid. In contrast, the elderly person may have accumulated assets and savings over their lifetime but face a fixed or declining income.

In conclusion, cash income has been most commonly used to date to measure living standards because of the difficulties associated with measuring non-cash elements. However, the question arises of how appropriate cash income is as a measure of living standards. The following section outlines a number of factors which are not included in a measure of cash income but which may be an important contributor to a person's or family's standard of living.

B.4 NON-CASH FACTORS WHICH AFFECT LIVING STANDARDS

Non-cash factors affecting living standards can be grouped into differences in need and personal attributes, differences in access to goods and services provided by government and differences in financial circumstances. Differences in need include things such as family size, housing status and the additional costs generated by disabilities or illness, employment and sole parenthood. The standard of living of an income unit is also affected by their level of assets, the number of hours of leisure they have and the access they have to things such as fringe benefits and goods and services received from the government and in-kind. A person's standard of living may also be affected by their ability to efficiently use resources, their level of skills and their expectations. This section identifies some factors which may affect living standards, some of which are already considered in the social security system. These factors are summarised in Figure 1.

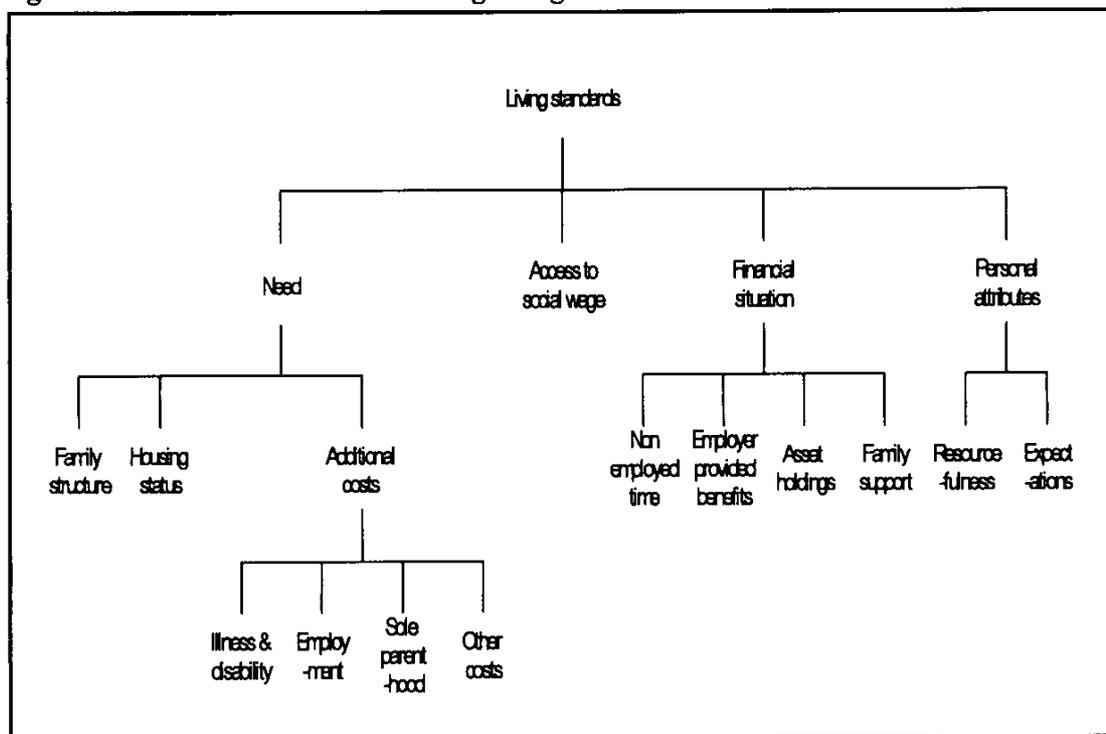
B.4.1 DIFFERENCES IN NEED

Poverty research suggests that cash income should be adjusted at least for family size and possibly for labour force status of family members and housing status.

Family size and age of members

It is generally recognised that the presence of additional members within the income unit results in lower levels of living for a given level of income. It is common to base the impact of the unit on its age (if only differentiating between adults and children) although at times gender is also considered.

Figure B1: Non-cash factors affecting living standards



Differences in need associated with the presence of children in a family are recognised in the Australian social security system through the availability of family payments. Family Payment is paid subject to income and assets tests and is intended to provide assistance with the costs of raising children. It has two main components. Most families with dependent children qualify for Basic Family Payment which is related to family size with the rate of payment for the fourth and subsequent children being higher than for the first three. Additional Family Payment is paid in addition to Basic Family Payment to low income families.

Need can also vary depending on the ages of the family members. The Australian social security system acknowledges the additional costs associated with older children through the payment of Additional Family Payment which is paid at a higher rate for children aged 13-15 years than for children aged under 13 years.

Housing status

A family's standard of living is fundamentally affected by whether they own or are buying a home, are renting privately or are living in public housing. While this is acknowledged it is rarely accommodated within commonly used equivalence scales (the Henderson scales being the notable exception). This subsection briefly looks at the different circumstances of families in different types of accommodation.

Townsend (1979) concludes that owner-occupation is a major component of living standards. People who own their own homes are likely to have significantly better outcomes than people on similar incomes who are renting. Home owners are likely to have significantly lower housing costs (except rates and the cost of general maintenance), in addition to the asset.

Home owners also have security of tenure. The family home remains excluded from the pensions and allowance income test, in recognition of the contribution of home ownership to retirement income policy.

People paying off a mortgage do not receive any financial assistance from the Commonwealth Government. Although State Governments do provide some mortgage assistance, expenditure on this assistance is low and the availability of assistance is not well publicised. People paying a mortgage may therefore end up with poor outcomes, despite having part equity in the house. It is important also to look at housing outcomes from a life-cycle perspective. People may achieve unsatisfactory outcomes later in life if their labour force participation affects their ability to buy a house or other assets.

Rent Assistance provides assistance to people of limited means who pay rent or similar payments to private landlords for accommodation (but it is not payable to government housing tenants). To qualify for Rent Assistance a person must be paying rent above a threshold amount. Based on DSS data, the DSS submission to the public housing inquiry noted that the housing affordability problems of DSS clients renting privately intensified markedly after 1991, partly as a result of the recession with the single unemployed in particular facing problems. The DSS evaluation of 1988-89 and 1989-90 Budget initiatives indicated that housing affordability problems were most severe for single allowees and sole parents in private rental accommodation. The housing affordability problems of these groups were partly addressed by changes to the structure of Rent Assistance in March 1993 which aimed to further assist single people and sole parents with housing costs.

Some 26 per cent of DSS clients who are renting are living in government housing. They do not receive Rent Assistance and may pay up to 20 per cent in rent. However, government housing tenants often have better outcomes than clients renting privately or clients paying off a mortgage. As highlighted by the National Housing Strategy, government housing plays an important role in providing access to reasonable housing to specific groups who may be discriminated against in the private rental market. These groups primarily include people with special housing needs (such as the frail elderly, people with disabilities or people requiring emergency support), Aboriginal and Torres Strait Islander clients, sole parents and DSS clients in general. Government housing also provides tenants with reasonable security of tenure.

Illness and disability

People with a disability or chronic illness may face additional costs compared with people who are not ill or disabled. These costs include those associated with day-to-day living such as medical costs, the costs of special furniture and aids and appliances as well as costs of mobility, hygiene, shelter, nutrition and transport. There are also costs incurred specifically by those working or seeking employment. These include the direct costs of job search, training or employment (such as transport) and indirect costs such as the loss of concessions or access to services when their income rises above a threshold amount and the extra effort required and inconvenience of earning income in the paid labour force.

The social security system recognises the costs of people with disabilities in employment or vocational training who are unable to use public transport without substantial assistance

through Mobility Allowance. Child Disability Allowance is also paid to assist people in meeting the additional costs of caring for a severely disabled child at home. To qualify, the child needs to have a physical, intellectual or psychiatric disability which means they require substantially more attention on a daily basis than a child of the same age who does not have a disability.

Wrightman and Foreman (1991) conducted a survey of current and former DSS clients with a disability and attempted to isolate those costs which were attributable to the respondents' disabilities. They found that a third of the survey population with disabilities had no additional costs, either because the severity of their disability was low and they had no need to incur additional costs, they received assistance in-kind from government or other organisations or they could not afford additional assistance. Of those who did incur additional costs, these costs ranged from very low to high. The survey also suggested that those who participated in the labour force were able to do so because their costs of labour force participation were low compared with their total costs.

It is clear that the additional costs faced by the disabled and seriously ill will limit the outcomes they achieve with a given level of income. However, the large variations in degrees of impairment and the types and levels of costs of faced by people with disabilities makes it difficult to incorporate these costs in a benchmark.

Costs of employment

The needs of a family or individual may vary according to whether they are employed or looking for work. There are a number of costs associated with employment and job search, most notably transport costs, clothing, materials and costs specific to job search.

The Henderson equivalence scales allow for additional costs associated with labour force participation. In a recent study, Saunders and Matheson (1992) derived equivalence scales by calculating the ratio of poverty lines for different family types using the consensual approach. They found that the needs of single aged adults are well below the needs of single non-aged adults, although they did not attribute the additional costs to specific causes. In contrast to both the Henderson scales and the findings of Saunders and Matheson, the single rate of Job Search / Newstart Allowance is some 8 per cent below the single rate of Age Pension.

In developing benchmarks for social security payments, it is important to acknowledge the issue of the trade-off between the adequacy of income and incentives for self-help and financial independence. It is likely that the single rate of allowance is below the rate of pension in order to remove possible disincentives to finding work. As the aim of establishing benchmarks is to ensure that families and individuals have an adequate income, it is probably more appropriate to establish a benchmark of adequacy and deal with the issue of incentives separately, possibly through income testing or the decision not to meet a benchmark for specific categories.

Another important cost of employment is the cost of child care. Child care is likely to be a significant cost to two income and sole parent families. It is also likely to act as a disincentive to the second earner or a sole parent seeking paid work.

The Commonwealth Government contributes to meeting the costs of child care for families with children through the provision of Childcare Assistance and the Childcare Rebate. Childcare Assistance (formerly Child Care Fee Relief) is payable to Additional Family Payment recipients engaged in paid work or activities designed to increase their workforce opportunities (such as job search, education and training) and is available at various rates for various types of care. Since 1 July 1994, a Childcare Rebate has also been paid to families who are employed, studying, training or looking for work and who are using formal and informal child care. The Childcare Rebate was introduced in recognition that the costs of all child care are a legitimate work-related expense. It provides assistance to working families who do not benefit from targeted Childcare Assistance and additional assistance to those in receipt of Childcare Assistance.

Costs of sole parenthood

Sole parents face additional costs which relate specifically to sole parenthood. These costs take several forms but two important ones are the costs of housing and the costs of time.

Sole parents may have similar housing costs (such as rent, fuel, household equipment and household repairs) to two parent families with children. In an analysis of the housing costs faced by different types of families, Whiteford (1991) argued that, while sole parents are likely to be concentrated in types of housing with low average costs (such as public housing), there is evidence to suggest that within occupancy groups, housing costs for sole parents and low income couples are broadly similar. Although these costs may not be considered to be additional costs, the implication is that there are substantial economies of scale in housing and that these costs do not necessarily fall when the second adult leaves the household. This is despite the fact that the level of household income is likely to have fallen.

Sole parents also face additional indirect costs associated with the allocation of time in the household. Whiteford (1991:70) has argued that:

'Sole parents have substantially less time than two parent families, so that they would have increased income requirements to compensate for the time inputs 'lost' through the absence of the second adult.'

For example, sole parents do not have a partner who can take children to and from school or care for them when they are sick. Sole parents either face the costs of income forgone if they leave paid work or reduce their hours of paid work or the cost of child care if they increase their hours of work.

Sole Parent Pension provides income support for a single adult who, because of the necessity of bringing up children alone, faces difficulty participating in the workforce. Most sole parents also receive Family Payment which assists in meeting the costs of children. Guardian Allowance is paid specifically in respect of the additional cost for sole parents of supporting another person in the household. This cost arises because the marginal cost of a child who is the second member of the family exceeds the cost of a child who is the third member because of the economies of scale associated with housing and related costs.

However, it has been argued that Guardian Allowance falls short of any measure of the additional costs of sole parenthood. Whiteford (1991) conducted an analysis of the costs of sole parent families compared to single people without children and two parent families. This analysis examined the existing payment relativities in other social security systems (such as those of New Zealand, the UK, Canada and Germany) as well as equivalence scales derived from Australian and overseas research. The results implied that a sole parent with one child needs between 86 and 94 per cent of the income of a couple without children to achieve the same standard of living (Whiteford, 1991:71). At the time of the study, Australian sole parents with one child under 13 years received 81 per cent of the married rate of pension while sole parents with one child aged between 13 and 15 years received 86 per cent (these figures are currently 81.6 per cent and 86.6 per cent respectively). These figures were well below the estimates for the other four countries and were also below the equivalence scales estimated in five of the eight studies.

Whiteford argued that, while Guardian Allowance was the appropriate mechanism to assist sole parents, it was at the low end of the range. He tentatively concluded that

'... it would seem defensible to argue that a sole parent with one young child should receive payments set at around 90 per cent of the combined married rate of pension' (Whiteford, 1991:72).

It could also be argued, however, that there may be better means of targeting assistance than increasing the level of Guardian Allowance, depending on the type of costs involved. For example, the additional costs of housing may be better met by altering the levels and payment of Rent Assistance while the costs of child care could be met through changes in child care provision and assistance.

B.4.2 DIFFERENCES IN ACCESS TO ASPECTS OF THE SOCIAL WAGE

Families with identical cash incomes and wealth might differ considerably in their real living standards because of different benefits derived from their use of public services. These non-cash benefits include education (primary, secondary and tertiary), health services (including hospital care, medical clinics and pharmaceuticals), housing, as well as the provision of non-cash social security and welfare benefits (in particular, health and transport concessions).

In a recent study examining changes in inequality, Raskall and Urquhart (1994) broadened the concept of cash income to include aspects of the social wage (most notably expenditure on health and education). They found that, over the period of the Labor Government, the social wage has become more significant as a redistributive device with health expenditure in particular becoming almost as significant as the income tax system in reducing inequality. The elderly and families with children were found to be the main beneficiaries of social wage expenditure, with health and education expenditure helping increase the living standards of the elderly and families with children respectively.

Certain low income families and, in particular, social security recipients, also have access to a wide range of fringe benefits. Health care and concession cards, issued by DSS, entitle the

holder to a range of pharmaceuticals at a reduced price. The cards may also entitle the holder to a range of concessions covering health, transport, household bills and recreation. The concessions are provided by government, semi-government and private organisations and vary from State to State. Different cards are issued to different categories of recipients.

However, access to services provided by government is not necessarily equal for all low income earners. Some people may face cultural or language barriers while others, both urban and rural, may not have services available in their area. For example, a family may be forced to incur the costs of running a car because access to public transport is poor in their area. While the social security system recognises the additional costs of living in remote areas through the payment of Remote Area Allowance, it does not acknowledge differing access to services in areas not considered to be remote.

ABS (1992) studied the effects of government benefits on the distribution of income among private households in Australia. In this study, indirect benefits (non-cash benefits derived from government expenditure on education, health, housing and social security and welfare) were allocated by distributing the cost to Government of providing the services among service users. ABS estimated that indirect benefits were valued at nearly 22 per cent of the value of household disposable income with education comprising nearly 10 per cent, health comprising 9 per cent, non-cash social security and welfare benefits comprising 2 per cent and housing comprising less than 1 per cent of household disposable income.

B.4.3 DIFFERENCES IN FINANCIAL CIRCUMSTANCES

Cost/value of time spent not earning an income

The opportunity and capacity to engage in non-market activities will lead to different outcomes for people on similar incomes. For example, a family, with income of \$30,000 who work 72 hours a week are likely to have a lower standard of living than another family also with income of \$30,000 who work only 40 hours a week.

Non-employed time includes time spent on leisure activities and time spent on non-market activities that result in the production of a good or service that could be purchased in the market (ABS, 1990:1). Activities which could be included in this second component are food preparation, cleaning, home and car maintenance, gardening, pet care, providing transport services to family members, care for children as well as sick, disabled and elderly family members, shopping, and volunteer and community work (ABS,1990).

There are likely to be difficulties in estimating the value of non-employed time because of the difficulties in distinguishing between household work and leisure. For example, gardening could be defined as work because a gardener could be hired to carry out this function. However, it could also be considered to constitute leisure. In addition, as identified by ABS (1990), two or more household production activities can be performed simultaneously. The alternatives for valuation are to value each of these activities, value only the primary activity or arbitrarily allocate the value between the activities.

Estimating the value of household work can be done through valuing the input of labour to the activity. However, this does not allow for differences in productivity between individuals.

The ABS (1990) identify three main approaches for allocating a value to household work. Firstly, the *individual function replacement cost* approach values time spent in household production according to the cost of such a service in the market (such as child care services). However, commercial rates of pay may encompass skills which are not required in household production. Secondly, the *housekeeper replacement cost* approach values household work at the cost of hiring a housekeeper to perform the duties. However, this approach does not allow for tasks not performed by a housekeeper. Finally, the *opportunity cost* approach values household work in terms of the market wage foregone by devoting time to household work rather than paid employment. ABS (1990) notes that the main drawback with this approach is that it is often not possible for workers to substitute periods of paid and unpaid work at the margin.

Travers and Richardson (1993) argue that the value of time not spent earning an income is an important source of material well-being which is not included in a measure of cash income. They use the *opportunity cost* approach to try and identify the contribution of non-employed time to full income, which is a measure of all the major sources of material well-being including cash income, the value of non-employed time, the value of services provided by owner-occupied housing and the value of indirect benefits provided by governments. Travers and Richardson (1993:37) found that adult non-employed time comprises 22 per cent of average full income.

ABS estimates the value of unpaid household work for Australia in 1986-87 to range from \$137.3 billion using the *individual function replacement cost* approach and award wage rates to \$162.8 billion using the *opportunity cost* approach and average wage rates (ABS, 1990). However, ABS states that these figures should only be used as an indication of order of magnitude rather than a precise measure of the value of household work. This is mainly because of concerns about the assumptions made on the division between work and leisure, the treatment of secondary activities, the treatment of child care, the wage levels used and the significant sampling and non-sampling errors (ABS, 1990). Also, the estimate for Australia was extrapolated from a pilot survey of 1,000 private dwellings in Sydney in one fortnight. Thus, it does not take into account seasonal and geographical variations.

Accumulation of assets

Although assets are accumulated through income, they have been considered here as a non-cash factor because aspects of their value are often not captured by estimates of income. Ownership of assets has a marked effect on living standards (Townsend 1979). Assets such as savings or shares can be liquidated to meet living expenses and property can be sold. Rents which are paid for the use of some types of asset, such as housing, or charges for the use of other assets, such as fares, do not have to be paid when houses and cars are owned. Assets also represent security so that loans can be obtained to smooth out fluctuations in income and living standards.

Townsend (1979) distinguishes between readily realisable assets, such as savings deposits and shares, which can be cashed at short notice and less readily realisable assets such as the value of a business, owner-occupied houses and cars.

Richardson and Travers (1989) found that most people in their study possessed basic consumer durables and that, in fact, many on low incomes possess more than this. Brownlee and McDonald (1993) have also found, in a study of families with children in Melbourne, that the vast majority of low income families have a car. As such, while important to living standards, the near universal possession of basic consumer durables means that they have little differential impact on living standards. However, Brownlee and McDonald found that owning bonds, debentures, shares or real estate apart from the family home appeared to be a good indicator of relative disadvantage.

The social security system takes into account the level of assets of an individual or family through the application of an assets test to basic pension, allowance or benefit and to family payments. Assets include cash and money in bank, building society and credit union accounts, interest bearing deposits, bonds, shares, annuities and other investments; value of real estate (except the family home); value of businesses and farms; surrender value of life insurance policies; gifts above certain amounts; loans to family trusts, family members and organisations; motor vehicles, boats and caravans not used as homes; household contents and personal effects and collections for trading, investment or hobby purposes (Department of Social Security, 1994). As noted, the main exemption from the assets test is the principal home. However, in recognition of the contribution of home ownership to living standards, the amount of assets allowed before payment levels are affected is higher for non-homeowners.

Receipt of employer-provided fringe benefits

Some employees, particularly those on high incomes, receive a wide range of fringe benefits provided by their employer in lieu of cash income. These include items such as company cars, low interest loans, housing, assistance with school fees and subsidies for private health insurance. Although income-in-kind is included in the ABS definition of private income it is possible that employer-provided fringe benefits are under-reported. DSS includes the value of certain employer-provided fringe benefits as income in the income test for family payments.

Access to financial support from family and friends

Travers and Richardson (1989) argue that poverty measures assume that no sharing exists outside the nuclear family and that this is a questionable assumption. The level of cash income is determined by which income unit is used. Currently, according to DSS, an income unit comprises an adult, a second adult if a marriage or marriage-like relationship exists, dependent children up to the age of 15 years, unemployed children up to 21 years and student children up to 24 years. However, students living away from home may have access to their parent's resources such as a car, food and money. If these resources are shared, the student's living standard will be significantly higher than their cash income would suggest.

Goods and services in kind received from people outside the household, including relatives and friends, can be important, particularly for low income families. For example, a family's outcomes can be improved by having access to financial resources in an emergency, and to child care, housing, transport, meals and gifts provided by friends and relatives (the estimated value of non-market household production has already been discussed in the first part of this section). However, access to such support is not uniform. Some groups, such as recently arrived immigrants, may face particular disadvantage in terms of access to both services and to

family support. Similarly, while Aboriginal and Torres Strait Islander people living in remote areas may have a large extended family network, they too may have limited access to some social services.

If it were found that access to family and social support were an important factor affecting living standards, consideration would need to be given to how to address this. While there would certainly be no case for requiring people to rely on their immediate family as a first resort, there may be justification for targeting additional assistance specifically to those who have no such support.

B.4.4 DIFFERENCES IN PERSONAL ATTRIBUTES

Resourcefulness

An individual's personal attributes can also affect their standard of living. An important attribute which varies between individuals is resourcefulness or their ability to utilise resources efficiently. It is likely that a person who can budget their money carefully or readily seek out information will have a higher standard of living than someone who does not have these attributes. However, resourcefulness is also affected by other things such as education and experience, as well as access to services and to information. For example, a person who lives close to a major supermarket is likely to be able to make the money go further than someone who is limited to shopping at convenience stores.

Expectations

It should also be noted that a person's standard of living will be affected by their perceptions and expectations. As noted in Section 3.2, a student may have high expectations that their current low income is only a temporary situation and that they will receive a higher income in the future. In contrast, a middle-aged person who has been unemployed for some time is likely to have much lower expectations for the future. As people adapt to constrained circumstances, the usefulness of self-assessment of levels of well-being has been challenged (Travers and Richardson, 1993:16).

In concluding this section, it appears that, in order to obtain a more accurate measure of living standards, there is a need to include a number of non-cash factors along with cash income. An indication of the relative importance of some non-cash factors is given by Travers and Richardson (1993). They expand the concept of income to include the estimated value of non-employed time, the services provided from owner-occupied housing and indirect benefits provided by government. They estimate that equivalent income comprised 55 per cent of this measure of 'full income', the value of non-employed time was 22 per cent, the imputed rent from home-ownership was 9 per cent and the value of government services was 7 per cent (Travers and Richardson, 1993:37).

The following section looks at the Deprivation Standards approach which has been used by Travers and Richardson to examine living standards. This approach will provide the basis for the identification of a possible approach to examine the role of certain non-cash factors in producing different outcomes for income units in Section 6.

B.5 THE DEPRIVATION STANDARDS APPROACH AND ITS DEFICIENCIES

This discussion seeks to identify an approach for assessing how non-cash factors interact with cash income to produce different outcomes. The Deprivation Standards approach, as developed by Townsend (1979), Mack and Lansley (1985) and Richardson and Travers (1989), appears to be a useful approach to examine in this context. This is because the underlying theme of much of the work based on this approach is that people on the same incomes will not necessarily achieve the same outcomes because of the influence of non-cash factors.

The work of the authors noted above has tended to focus on other objectives, such as identifying the number of people in poverty, and not specifically on identifying the contribution of the range of non-cash factors to living standards. However, it is suggested here that their concepts and methodologies may prove useful in developing a framework for further work aimed at assessing the relative importance of non-cash factors as explored in Section 5.

In assessing living standards, researchers have often focused on the levels of resources a person or family has (such as cash income) rather than their outcomes. The reasons for using cash income and the deficiencies of such a measure have been already been noted in sections 3.1 and 3.2. Section 4 has also described some of the major non-cash factors which cash income does not allow for.

The Deprivation Standards approach goes beyond the use of cash income and recognises the contribution of other factors to an individual's or family's living standards. Townsend, Mack and Lansley, and Richardson and Travers have tried to avoid using a proxy of income by focusing on the non-achievement of particular outcomes such as the lack of possession of goods (such as commonly owned necessities), the lack of access to services (such as transport), and the non-participation in certain activities (such as leisure activities). This approach has the advantage of being able to examine variations in a person's or family's circumstances which may have a marked effect on their living standards.

Townsend (1979) is regarded as the pioneer of the field of study which is referred to as the Deprivation Standards approach. He sought to develop a measure of poverty based on the view that a person could be considered to be in poverty 'when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved, in the societies to which they belong' (Townsend, 1979:31).

In 1968-69, Townsend conducted a survey of 2,000 households in Britain to try and establish whether there was a point at which there was a sudden withdrawal in a person's participation in society (and below which people could be considered to be in poverty).

To do this, Townsend collected information on a number of aspects of life such as diet, clothing, fuel, household amenities, housing, conditions and benefits of work, family support, recreation, education, health and social relations (Townsend, 1979:249). Sixty indicators of deprivation were selected which could be applied to individuals and families and added up with the highest score indicating the lowest level of participation. From the list of 60

indicators, Townsend developed a summary deprivation index of twelve of the items (comprising diet, household amenities, family support, recreation and social deprivation).

Townsend then plotted the summary deprivation index against income and the two were found to be closely correlated, with deprivation increasing as income fell. Although Townsend found the evidence to be inconclusive, there was a suggestion that a threshold separating the poor from the non poor existed at about 150 per cent of the supplementary benefit level.

Mack and Lansley examine some of the criticisms of Townsend's work. The three main ones are the arbitrariness of Townsend's choice of the twelve indicators of deprivation; the issue of whether people should be considered to be in poverty if they choose to go without a particular item; and the lack of statistical support for his contention of an income threshold (Mack and Lansley, 1985:34,192).

Mack and Lansley based their work on the methodology developed by Townsend but expanded their analysis in order to address two of the major flaws in Townsend's work - the arbitrariness of the list of necessities and the issue of choice. In their study, Mack and Lansley define poverty in terms of the 'enforced lack of socially perceived necessities' (their emphasis) (Mack and Lansley, 1985:39). In contrast to Townsend, Mack and Lansley did not themselves decide what goods, services and activities could be considered necessities. Instead, they compiled a list of 35 items and then asked respondents which items were necessities in that people should not have to do without them, which items they possessed and, for items which they lacked, was this by choice. Of the items on the list, 26 were considered necessities by a majority of the sample (Mack and Lansley, 1985:88).

Mack and Lansley then decided that the lack of three or more necessities, other than by choice, constituted poverty. This decision was based on the observation that very few of those on high incomes lacked that many necessities and those who lacked this level of necessities were also cutting back on non-necessities (Mack and Lansley, 1985:176). In recognition that some people's choices may be constrained by lower expectations, Mack and Lansley provided two sets of data, one on the assumption that the choice was genuine and a second on the assumption that the choice was constrained.

On the basis of their analysis, Mack and Lansley found that there were about 8.5 million people in poverty in the UK in the 1980s. They also determined that the level of income at which the relationship between income and deprivation significantly diverged was around 150 per cent of the supplementary benefit rate which, interestingly, is the same threshold level as that identified by Townsend.

Mack and Lansley identify one problem with the so-called 'consensual' approach. That is, that the view of what are socially perceived necessities is socially conditioned. However, they argue that this approach removes the concept of poverty from the judgement of experts and opens it to a 'more democratic representation of interests' (Mack and Lansley, 1985:47). However, the main criticisms of Mack and Lansley's approach have concerned the number of subjective judgements they have made which may have significant effects on the numbers in poverty, both upward and downward. For example, they:

- listed the original 35 items from which necessities were chosen;

- decided that 50 per cent agreement designates the item as a necessity; classified as poor anyone who lacked more than three necessities;
- excluded those who lacked three or more necessities and were in the top half of the income range;
- excluded 15 per cent of those who smoke because they could be said to cause their deprivations in that they would appear to have enough money to afford the necessities they lack if they did not smoke' (Mack and Lansley, 1985:177);
- allowed for those who have an enforced lack of necessities that they do not recognise because of low expectations;
- excluded those who lack three or more necessities where these items were not considered important to their standard of living; and
- included those who lack less than three necessities but whose lives were considered to be fundamentally affected because of the importance of the necessities they lack.

An approach similar to Mack and Lansley's was adopted by the Australian Institute of Family Studies for its Australian Living Standards Study (Brownlee, 1990:56).

In an analysis of data from the Australian Standard of Living Study (which they conducted), Richardson and Travers (1989) sought to examine whether equivalent income is a good proxy for living standards.

The Australian Standard of Living Study was conducted in 1987 and involves a national sample survey of 1,695 Australian residents aged 20-74 living in private dwellings (the homeless, people living in caravan parks and institutions as well as people living in remote country areas were excluded from the scope of the survey). The purpose of the survey was to gain information on people's standard of living. The information gathered included data on their financial circumstances (such as income, assets, credit position, assistance from families, home ownership), their access to goods and services (such as material possessions) and social activities (such as participation in sport, going to restaurants, the cinema and theatre and visiting friends).

In trying to measure the usefulness of cash income as a measure of living standards, Richardson and Travers (1989) chose a variety of indicators of problematic states that they regarded as serious. Like the approaches of Townsend and Mack and Lansley, the absence of certain items was taken to indicate deprivation. The authors constructed two indices of living standards (composed of over 40 separate indicators), one looked at possessions and credit situation and the other looked at leisure. In both of these sets, four indices were constructed which grouped together indicators with some relevance to each other. Other indicators such as home and car ownership were considered important but did not fit in any of the indices and were treated separately. The eight indices, along with the indicators included in each are shown in Table B 1.

Table B1: List of indices used by Richardson and Travers (1989)

Possessions and Credit Situation

Cashflow	Ability to raise \$1,500 in emergency, got behind in bills or hire purchase payments or sought financial assistance from relatives in past two years
Basic	Has indoor lavatory, fridge, washing machine, colour television, telephone
Modest	Has video, microwave, stereo equipment
Affluent	Has dishwasher, home with more than two bathrooms, owns shares, owns/part owns another dwelling/boat/caravan, ability to raise \$5,000 in emergency

Leisure	
Yuppie	Attend cinema/theatre/museum/concerts, go to restaurant
Yobbo	Play sport, watch sport on television/live, go to pub/club
Friendly	Visit friends, have friends to visit
Homely	Read books/magazines, gardening, hobbies

A composite index, *Sindex*, was then constructed which focused on 'the possession or absence of indicators which are likely to distinguish modest comfort from poverty' (Richardson and Travers, 1989:10). It consisted of the indicators *Cashflow*, *Basic* and *Modest*, together with information on whether the person obtained help from a welfare agency, whether or not they owned a car, whether or not they owned or were buying a house and whether or not they went on holiday in the previous year.

Richardson and Travers examined the correlation between equivalent income and this composite index and found that, on *average*, the higher the level of equivalent income, the higher the standard of living. However, they also argue that within any income group there is a large dispersion in standard of living, with a person's ranking on equivalent income being different from their ranking on standard of living in many cases (Richardson and Travers, 1989:33-35). They found that most of the sample had the five main items in the *Basic* index (indoor toilet, fridge, phone, colour television and washing machine). People on low incomes were also found to have access to a wide range of social and recreational activities with only eating in restaurants, going to museums, theatres and concerts being associated with having a high income. The index *Cashflow* (which examines credit standing) was found to have the most significant correlation with equivalent income with the authors concluding that the main difference that extra income made was to reduce financial stress (such as worry over finding the money to pay bills).

A number of problems have been identified with Richardson and Travers' study. Firstly, the information collected from the Australian Standard of Living Study was limited by budgetary considerations. For example, Brownlee (1990:50) notes that, although the authors would have liked to ask more detailed questions on health and working conditions, they were unable to do so. The data are also limited by the size of the sample as there are only small numbers of people in some subsets which may cast some doubt on the usefulness of the data. Data on the use of public and private services were also not systematically collected.

Secondly, Brownlee (1990:53-4) raises the point that the indicators chosen may not be the most appropriate measures of deprivation because they do not necessarily indicate what is considered important by members of society. For example, although the authors may assess

that ownership of a car is an important contributor to a person's living standards, this does not take into account whether or not the person can afford to run it. Also, like Townsend's 1979 study, people were not asked whether they did not have an item because they did not want it or because they could not afford it. However, despite her reservations, Brownlee argues that the study is useful in providing first time information on living standards in the Australian context.

In conclusion, there are a number of aspects of the Deprivation Standards approach which can be important in identifying a possible approach for assessing the relative contribution of non-cash factors to living standards. For example, such an approach would need to focus not only on an individual's income but also on their outcomes. Indices such as *Sindex* developed by Richardson and Travers may be useful in ranking a person in terms of their outcomes. A large scale survey such as that employed by Townsend, Mack and Lansley, and Richardson and Travers is also likely to be required in order to obtain sufficient information on a person's standard of living so as to be able to assess the contribution of non-cash factors to their living standards. Such an approach is explored further in the next section.

B.6 A POSSIBLE APPROACH TO INCORPORATING NON-CASH FACTORS

This section looks at possibilities for further research aimed at assessing the influence of certain non-cash factors on living standards based on the Deprivation Standards approach. If it were possible to identify the most important factors apart from income and possibly even place some value on them, this would assist in the development of benchmarks of adequacy for social security payments.

A number of researchers (such as Duncan, 1975 and Travers and Richardson, 1993) have looked at living standards in terms of a person's level of happiness or their satisfaction with life. Such an analysis is beyond the scope of this paper. Rather, like the analysis of Mack and Lansley(1985),the focus here is on aspects of life that are affected by access to money. It is possible, however, that once conclusions are reached as to why people on similar incomes do not achieve similar outcomes and ways to address this situation are identified, an additional step could be to look at how satisfied people are with their standard of living and ways that this could be altered.

As noted in Section 3, it has been contended that cash income is not a good indicator of living standards because individuals and families differ in things such as their level of need, the additional costs they face, their access to goods and services provided by government, their asset holdings, the time they spend outside paid employment, their access to a family support network and their personal attributes.

Assessing the importance of non-cash factors could be done in two stages. The first stage would be to assess the extent to which cash income is a good indicator of a person's or family's living standards. If income was found to be a good indicator, there would be little need to conduct any further analysis as non-cash elements would not be likely to have a marked effect on outcomes. However, as Richardson and Travers argue (1989), this is unlikely to be so.

In order to conduct the first stage - assessing whether income is a good proxy for living standards - an approach similar to that used by Richardson and Travers (1989) could be employed. As described in Section 4, Richardson and Travers (1989), using data from the Australian Standard of Living Study, chose a variety of indicators of problematic states that they considered to be serious, with the absence of certain items assumed to indicate deprivation. From this list, they constructed a composite index of items whose possession or absence would distinguish modest comfort from poverty. They then examined the correlation between equivalent income and this composite index.

Although this work has already been done by Richardson and Travers, such an analysis would be an important first step in assessing the role of non-cash factors in influencing living standards. This is because, as noted earlier, there would be little point in analysing the contribution of non-cash factors if cash income was a good indicator of living standards. Also, it would be useful to repeat the analysis of Richardson and Travers because of the limitations of budgetary constraints on the sample they used and the number of questions they asked of respondents (Brownlee 1990:50). Richardson and Travers also excluded the homeless, people living in caravan parks and institutions, and people living in remote country areas from the scope of the survey. It would be useful to obtain information from a sample of these groups on the grounds that the homeless and people living in caravan parks are likely to have lower outcomes than many of those who were surveyed, People living in remote areas are also likely to face specific problems such as lack of access to services which would not be experienced by people living in urban areas.

If it was found that income was not a good indicator of living standards, the second stage would examine the extent to which certain non-cash factors contribute to living standards. This may involve analysing the correlation between a person's income, their outcomes and their experience with a range of non-cash factors. In the initial stage, people would have been ranked against a range of outcomes. This could be done by allocating values to each indicator based on whether or not a person has an item, has access to service or has been involved in a social activity etc., and summing these values together.

To assess the relative importance of non-cash factors, indicators related to a single non-cash factor could be grouped together in an index. For example, a 'family support' index could comprise indicators of whether a family has received financial help from a relative in the last year, whether a relative provided child care in the last year and whether a relative has provided transport in the last year. Groups on similar incomes could then be compared against their ranking on the range of outcomes. If there was a divergence, then it could be assumed that other factors influence outcomes.

In order to assess the relative importance of these factors, groups with similar incomes and divergent rankings on outcomes could be grouped together depending on their circumstances. If people on similar incomes with similar experiences on say nine out of ten indicators have vastly different outcomes, then the tenth factor is likely to be an important influence on living standards. The data could then be examined more closely to test different hypotheses. For example, do families who own their own home consistently achieve better outcomes than families on similar incomes and in similar situations who rent? Closer examination of the data is also likely to show up other links.

The main problem with such an approach is that the data collection and analysis would be a large, expensive and time consuming exercise. For example, detailed information would be required on the income of income units, their outcomes (such as possession of goods, financial circumstances, aspects of social participation) and non-cash factors which may be important (such as family size, housing status, asset holdings, additional costs faced by different individuals, access to services and assistance from relatives and friends). Information would also need to be collected on other influences on outcomes such as family characteristics (for example education, skills and labour force participation).

Gathering the amount of detailed information which is necessary is likely to require a national sample survey. This would have to be very large in scope because of the need to have a sufficient sample size in each of the subsets of interest. It would also be important to clarify exactly what information is needed prior to the survey so that the questions are framed appropriately. In this regard, a pilot study would be appropriate to test the methodology to be used.

The Australian Institute of Family Studies (AIFS) was commissioned in 1990 to conduct a three year study of the living standards of Australian families in twelve Australian localities representing varying socio-geographic settings. Some of the information which is required in order to be able to assess the contribution of non-cash factors to living standards may have already been collected in the Australian Living Standards Study. Prior to undertaking a new survey, the AIFS database would have to be examined to assess to what extent AIFS have acquired the information which is required and whether the sample size they have used is large enough to be of use.

This approach also would identify factors which are important at a set point in time and the exercise, therefore, may need to be repeated at some time in the future to ensure accuracy.

If one or several factors were identified as being very important in influencing living standards, decisions would need to be made about whether these findings should be acted upon and how this should be done. In certain cases, this may involve paying additional income support. For example, if it were found that people renting privately consistently achieved low outcomes, it may be appropriate to consider increasing Rent Assistance.

The results of the study may require a re-examination of existing social security payment relativities and the reasons for them. For example, if it were found that the unemployed achieved poor outcomes because the level of allowance did not allow for the costs of job search, consideration could be given to raising the level of allowance. However, the issue of maintaining appropriate incentives to find paid employment may be an important consideration when assessing rates of allowance.

In some cases direct intervention by different levels of government and other organisations may be the most appropriate policy response. For example, if the results stressed the importance for living standards of reasonable access to public transport, increases in the level of service to areas characterised by poor access may be appropriate. The additional costs faced by the disabled or ill may also be found to significantly lower their outcomes. These costs are unlikely to be able to be addressed through benchmarking because of the small population with a disability and the high degree of variation of types of disability. Therefore, one response could be to provide those affected with direct assistance in the form of aids and

appliances, subsidies for home care or additional financial assistance if access to transport and services was the main concern.

Programs such as the Jobs, Education and Training (JET) program for sole parents and widows may provide better means of improving poor outcomes than just increasing income. The JET program acknowledges the importance of non-cash factors such as lack of access to child care, education and training and the need for assistance in job search, which may act as important impediments to clients finding work and achieving good outcomes.

It may be the case that a person's lack of information on services and resources rather than impediments to their physical access to services may limit their opportunities to maximise their living standards. The Commonwealth Government has recognised lack of information as a possible impediment and has already taken steps to address this. In the White Paper on Employment and Growth, Working Nation, the Government announced the pilot testing of a computer-based information system over a period of 18 months from the beginning of 1995. It is intended that this system will be made available to DSS clients as well as community and private bodies and will provide information on social security and other assistance as well as information on local resources and services. One of the aims is for this system to provide a mechanism for individuals and communities to communicate with each other and share information.

It may also be found that families with a high degree of support from relatives and friends achieve better outcomes than those who do not have such support because, for example, they have access to financial assistance in an emergency or receive free child care. If access to family support was found to be an important factor in people achieving higher living standards, people without such support could be assisted through the provision of low interest loans or be linked up with child care services.

This section sought to outline some of the issues which would be involved in trying to assess the relative contribution of non-cash factors to living standards. The Deprivation Standards is useful in developing such an approach because of its focus on outcomes. Such an exercise is likely to be both time consuming and costly, both in terms of actually undertaking the research and examining policy options.

B.7 CONCLUSION

This paper has looked specifically at the use of cash income as an indicator of living standards and at some factors which are not reflected in cash income which may be an important influence on living standards. Cash income has commonly been used as a proxy for living standards because it is generally accepted, readily available and reasonably easy to collect, in contrast to information on non-cash factors.

Some researchers have argued that cash income is poorly correlated with living standards because it neglects saving and dis-saving, fails to recognise the value of leisure and fluctuates markedly over a lifetime. Income also does not reflect differences in need (such as family size, housing status and the additional costs generated by employment, disabilities or illness), the level of access families and individuals have to other resources (such as goods and services

received from the government, asset holdings, fringe benefits and family support) and differences in the personal attributes of individuals.

Although work has been done on assessing whether cash income is a good proxy for living standards, little work has been done on actually assessing the relative contribution of non-cash factors to a person's or individual's standard of living. The paper therefore looks at a possible approach based on the Deprivation Standards method which seeks to identify, firstly, whether cash income is a good indicator of living standards and, secondly, the importance of certain non-cash factors. The Deprivation Standards approach is a useful approach on which to base this work because of its focus on outcomes and its underlying theme that people on similar incomes may not necessarily achieve the same outcomes because of the influence of non-cash factors.

Such an approach is likely to be a comprehensive exercise which would involve a lot of resources, both in terms of time and money. In developing benchmarks of adequacy, a decision would need to be made on the relative costs and benefits of such an approach. However, if it was considered that information on the contribution of non-cash factors was integral to ensuring the accuracy of the benchmarks, this approach is one possible way in which such an assessment could be done.

APPENDIX C: BACKGROUND PAPER NO. 3

THE ASSESSMENT OF LIVING STANDARDS

C.1 EXECUTIVE SUMMARY

This paper contains background information about the measurement of living standards in Australia and overseas and the link between living standards and determinations about the adequacy of social security payments.

The paper notes that, whilst the primary objective of Australia's income security programs is to ensure that income support recipients have an adequate income, neither the concept of adequacy, nor the purpose for which payments must be adequate, is defined. It is suggested that, whilst the concept of adequacy is not explicitly defined, implicit in the notion of 'income support' is the idea that payments must be adequate to ensure recipients are able to attain and, in the case of long-term payments, maintain an 'adequate standard of living'.

It is submitted that in order to determine whether or not income support recipients are achieving an adequate standard of living (however that may be defined), there is a need for the Department to have an understanding of the standards currently being achieved, and their relative adequacy.

This paper concludes that we currently have insufficient knowledge about living standards in contemporary Australia, (where living standards are deemed to be a function not only of cash income, but also other way of life and economic resource factors), to make a judgement about the adequacy of existing social security payments. This lack of information is largely a consequence of the huge investment required, in terms of both time and money, to obtain and maintain up-to-date living standards information. The challenge, therefore, is to identify efficient and cost effective ways of monitoring the relativities between DSS client, and broader community living standards.

C.2 INTRODUCTION

This paper contains background information about the measurement of living standards in Australia and overseas and the link between living standards and determinations about the 'adequacy' of social security payments.

When considering the issue of the adequacy of social security payments, one must address the question of what payments must be adequate for. Whilst the primary objective of Australia's income security programs is to ensure income support recipients have an adequate income (DSS, 1994a), neither the concept of adequacy nor the purpose for which payments must be adequate is defined.

Whilst the purpose for which payments must be adequate is not explicitly defined, implicit in the concept of 'income support' is the notion that payments must be adequate to ensure recipients are able to attain, and in the case of long-term payments, maintain an 'adequate standard of living'.

The issues associated with measuring standards of living, determining the standard of living considered 'adequate' for social security recipients and deciding what role income support payments should play in ensuring recipients achieve the desired standard are complex, and have been the subject of considerable debate.

One thing that is clear, however, is that if it is accepted that the purpose of social security payments is to assist clients to achieve an adequate standard of living, then in order to judge whether or not this objective is being met, it would be useful for the Department to have an understanding of the standards currently being achieved and their relative adequacy. Such information would also be particularly useful in the context of the Benchmarks of Adequacy project if it was decided to explore further the 'descriptive' approach to benchmarking described in detail in the Background Paper 1.

Section 3 of this paper contains an overview of the major methodologies developed in Australia and overseas to enable the measurement of living standards. Section 4 of the paper discusses the results of recent studies of Australian living standards, whilst Section 5 outlines the results of comparative analyses of the living standards of Department of Social Security (DSS) clients and the wider Australian community. Section 6 discusses a range of potential sources of living standards information, whilst Section 7 summarises the main findings of the paper.

C.3 METHODOLOGIES FOR MEASURING LIVING STANDARDS

Until quite recent times, the measurement of living standards both within Australia and overseas has generally been confined to the assessment of an income unit's 'real disposable income'. One of the primary reasons for the widespread use of real disposable income as a tool for measuring changes in poverty, inequality and living standards, is the recognition that the receipt of income allows for the consumption of goods and services which have a significant effect on living standards. Other advantages of the use of income data include the fact that the information is readily available, reasonably easy to collect and has gained general acceptance as a measure by which people can be ranked.

There is now increasing recognition, however, of the contribution of non-cash and social wage items to an income unit's overall standard of living, and the need to factor these components into measures of living standards. Acknowledgement by researchers and the broader community that living standards are a function not only of cash income, but also other economic resource and way-of-life factors, has led to major methodological change in the measurement of living standards over the past 30 years. (A detailed discussion of the relative contribution of cash and non-cash factors to the determination of living standards can be found in Background Paper No. 2.)

Following is a brief outline of the major methodologies that have been used to measure living standards within Australia and overseas in recent years. The methodologies include income based approaches, the Deprivation Standards approaches, the Scandinavian Level of Living and Quality of Life approaches and the United States Quality of Life approach. This summary highlights the broad range of methodological approaches that can be taken to the measurement

of living standards and the potential for divergent study results depending upon the methodology adopted.

C.3.1 INCOME BASED APPROACHES

Income based approaches are characterised by the use of real disposable income to measure living standards. A significant income based methodology is the Budget Standards approach, a detailed description of which can be found in Background Paper 1. Briefly, however, the approach involves specifying baskets of goods and services which, when priced, can represent particular living standards (Bradshaw, 1993). The composition of the basket is designed to reflect the consumption requirements of a defined income unit (e.g. family or household) at a specified standard of living (e.g. subsistence, modest-but-adequate, etc.), and can be modified to reflect different circumstances.

Whilst the application of Budget Standards in the United Kingdom and the United States has been primarily restricted to defining subsistence level living standards, a number of researchers (Bradshaw, Cooke and Godfrey (1983), Millar (1989) and Bradshaw and Holmes (1989)) have broadened the scope of the approach by incorporating way of life indicators other than basic necessities. Examples of 'nonessential' items incorporated in the consumption basket by these researchers include household items (e.g. telephone, washing machine), use of free or subsidised public services (e.g. transport, libraries) and recreation and leisure activities.

Another income based approach utilised in a number of European countries is the 'consensual' approach to poverty measurement. This approach involves seeking the views of the community about minimally acceptable levels of income, rather than relying upon the judgements of 'experts'. The results of this approach have shown that community views can differ markedly to those of 'experts' with regard to minimum acceptable living standards.

An income based approach to poverty measurement is utilised in Australia through the use of the Henderson Poverty Line. The Henderson methodology for assessing living standards basically involves comparing families' cash incomes after tax with the Henderson Poverty Line. The poverty methodology on which the Line is based has its origin in a survey of poverty undertaken by the Institute of Applied Economic and Social Research at the University of Melbourne in 1966. The Henderson Poverty Line was set at the level of the minimum award rate of pay for male full-time employees plus child endowment, which equated to 56.6 per cent of average weekly earnings. Although linked to community earnings, the level at which the Line was set was essentially an arbitrary decision based on a value judgement by Henderson about the level of income that would support an 'austere' lifestyle. The Henderson Poverty Line did not originally, nor does it currently, reflect a rigorous assessment of a family's actual needs or costs.

The Line was indexed according to increases in average weekly earnings until 1981, at which time household disposable income per capita was adopted as the updating mechanism. The equivalence scales adopted by Henderson were based on a set of scales developed in New York in 1954 which allowed for differences in costs according to the number of people in the income unit, the age, sex and labour force status of individuals and differences in housing, fuel and power costs.

During the 1970s and 1980s widespread concern developed about the relevance of the Henderson poverty line in contemporary Australia and the appropriateness of some of the assumptions on which it is based. Despite attempts by organisations such as the Social Welfare Policy Secretariat to develop an alternative poverty line, nobody has yet been able to develop a credible alternative to the Henderson Line.

C.3.2 THE DEPRIVATION STANDARDS APPROACH

The Deprivation Standards approach to the measurement of living standards differs to the income based approaches in that it goes beyond the use of cash income and recognises the contribution of other factors to an individual's or family's standard of living. There are a number of variations within the Deprivation Standards methodology, as described below.

Deprivation Standards - Townsend's Methodology

The Deprivation Standards approach to the measurement of living standards was developed by Townsend in the United Kingdom in the 1960s. The main features of the Deprivation Standards approach that made it different from previous measurement methodologies included:

- the way in which it broadened the definition of resources when measuring poverty; and
- the rejection within the methodology of the absolute or subsistence concepts of poverty.

Whereas previous poverty measurement methodologies recognised only cash income and a narrow range of consumption items as contributors to standard of living, Townsend recognised the contribution of other economic and way of life factors. In broadening the definition of resources that impact on standard of living, Townsend included such factors as the value of public social services in kind, the value of employment benefits in kind, private income in kind and capital assets. Way of life indicators used to assess deprivation included aspects of diet, clothing, family life, recreational activity, and environmental conditions to name a few. Townsend's attempt to develop a more comprehensive definition of income and resources has been recognised as providing a significant contribution to the methodological debate.

An important concept on which the Deprivation Standards approach was based was Townsend's belief that the absolute or subsistence concepts of poverty used by others were inappropriate. Townsend suggested that 'People's needs... are conditioned by the society in which they live and to which they belong' (1979:38) and sought to develop a measure of poverty based on the view that persons could be considered to be in poverty when:

'they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged and approved, in the societies to which they belong' (Townsend, 1979:31).

Townsend's first major poverty study in 1968-69 involved surveying 2052 British households in an attempt to determine whether there was an income threshold below which people were disproportionately deprived. The methodology involved collecting information from

individuals and families relating to various aspects of life including diet, clothing, fuel and light, household amenities, housing, conditions and benefits of work, family support, recreation, education, health and social relations (Townsend, 1979:249).

Respondents were assessed against sixty selected deprivation indicators and were considered to be 'deprived' if, for example, they did not participate in an activity or lacked a facility. The survey results were used to develop a summary deprivation index of twelve items which measured major aspects of dietary, household, familial, recreational and social deprivation. The summary deprivation index was then plotted against income. Townsend found that, whilst the evidence was inconclusive, there was a suggestion of a threshold below which people were disproportionately deprived.

Townsend's study has been the subject of some criticism, particularly in relation to his selection of deprivation indicators. For example, Piachaud (1981) criticises the arbitrary nature of the components included in the index and the fact that the index does not recognise that deprivation sometimes results from choice rather than constraints.

Townsend responded to these criticisms in part in a later study in which he revised his index of deprivation. For the purposes of his 'Poverty and the London Labour Market Study', Townsend developed an index of multiple deprivation. This index was based on a list of 77 indicators or groups of indicators which reflected different types of deprivation. In this study, respondents were given the opportunity to state with regard to each indicator whether they considered them to be essential.

Deprivation Standards: Consensual Approach

The consensual approach to Relative Deprivation was developed by Mack and Lansley in Britain in the mid 1980s. The important features of Mack and Lansley's approach are:

- the utilisation of the direct approach to measuring living standards, rather than using the proxy of income; and
- adoption of the consensual approach to defining 'necessities' and the costs of 'necessities'. This is achieved by seeking the views of 'the people' rather than leaving the decisions purely to experts (Travers and Richardson, 1993).

Mack and Lansley also addressed one of the key criticisms of Townsend's work, the issue of whether deprivation was the result of choice rather than constraint, by asking respondents the reasons why they did not possess certain 'necessities'. Mack and Lansley's study thus defines poverty in terms of 'an *enforced lack of socially perceived necessities*' (their emphasis) (Mack and Lansley, 1985:39).

Mack and Lansley's methodology involved presenting survey respondents with a list of 35 items regarded as indicators of a minimally adequate way of life. Respondents were asked to divide this list into items that were essential, and those that were desirable but not essential. They were then asked if they had each of the items, and if not, whether this was by choice.

The researchers then deemed those items that were identified as 'essential' by 50 per cent of the respondents to be a necessity. This resulted in the identification of 26 'necessities'. Mack and Lansley then decided that the lack of three or more necessities, other than by choice, constituted poverty. This decision was based on the observation that very few of those on high incomes lacked that number of necessities, and that those who did were also cutting back on non-necessities (Mack and Lansley, 1985:176).

In recognition of the fact that the absence of an item may reflect limited aspirations rather than genuine preference, Mack and Lansley compiled two sets of data, one on the assumption that the choice was genuine, and the other assuming that the choice itself was constrained by low expectations (Mack and Lansley, 1985:182).

The main criticisms of Mack and Lansley's approach relate to the number of subjective judgements implicit in the methodology and the potential for these judgements to significantly effect study outcomes. Examples of these subjective influences include:

- composition of the list of 35 items from which the necessities were chosen;
- the decision that 50 per cent agreement deems an item to be a necessity; and
- the classification as poor of anyone who lacked three or more necessities.

A variation on Mack and Lansley's approach to the measurement of living standards has been used in a recent study of Australian living standards. This is discussed further in Section 4 of this paper.

C.3.3 SCANDINAVIAN APPROACHES

Two significant methodological approaches to the measurement of living standards have been developed in Scandinavia; the Level of Living Approach and the Quality of Life Approach.

The key assumption underlying the Level of Living Approach is the view that individuals are active rather than passive beings and utilise resources in accordance with personal preferences.

The Scandinavian Level of Living Approach recognises the contribution of factors other than income in the determination of living standards. Level of living is measured according to 9 categories of resource or way of life indicators including:

- health and the availability of medical aid;
- employment and working conditions;
- economic resources and consumer protection;
- knowledge and education;
- family and social relations;

- housing and housing area services;
- recreation;
- security of life and property; and
- political resources.

The measures of level of living used focus only on areas of life influenced by public policy, and the information collected is factual in nature. Individuals perceptions of their situation are not canvassed, as it is believed that these perceptions are affected by differences in a person's aspiration levels (Erikson and Aberg, 1987:4).

The Quality of Life approach was developed by Allardt in the 1970s (Allardt, 1976). Allardt's main emphasis was on objective measures of welfare, although he recognised the contribution of subjective components. Allardt believed that a standard of living is made up of two components, quality of life and level of living, where quality of life refers to needs for love and self-actualisation and level of living to material and impersonal needs (Allardt, 1976:228). Allardt's study divided dimensions of standard of living into three categories, the twelve components of which were as follows:

- Having - income, housing, employment; health, education;
- Loving - community and family attachment and friendship patterns; and
- Being - personal prestige, insubstitutability, political resources, participating in interesting activities.

Subjective welfare was then measured using six scales, two of which measured satisfaction attitudes and four dissatisfaction attitudes (see Allardt, 1976:235 for details of these scales). In analysing the data, Allardt examined the relationship between the 12 components of living standards, the six attitude scales and various demographic variables. Allardt found that the correlation between the three categories of welfare were weak, and that 'deprivation' with regard to one category (e.g. Having) does not necessarily lead to deprivation in relation to another category (e.g. Loving).

C.3.4 QUALITY OF LIFE APPROACH: UNITED STATES

Until the 1970s, quality of life in the United States tended to be measured in terms of material well-being. In the early 1970s, however, there were increasing concerns that despite continuing increases in material affluence, there appeared to be little improvement in subjective well-being or quality of life. In response to these concerns, Campbell, Converse and Rodgers conducted two quality of life studies, one in 1971 and the other in 1978.

Quality of life was defined in terms of the degree to which an individual's 'needs' were satisfied, where needs were defined as both material and non-material. Living standards were measured according to 12 different domains, including:

- four environmental domains - housing, neighbourhood, community, nation;
- three relationship domains - work, marriage, family life; and
- five personal resource domains - standard of living, education, health, friendships and self

The focus of the studies was on '...these individual domains, their relationship to each other and their respective contributions to the overall quality of life' (Campbell, Converse and Rodgers, 1976:9).

Both the 1971 and 1978 studies were experimental in nature and were focused primarily on developing and testing methodologies for measuring quality of life, rather than on drawing broad conclusions about living standards in the United States in general. Data gathered were used to compare factors such as quality of life at different stages in the lifecycle, in different regions of the United States and in urban versus rural areas, but tended to be very location and time specific.

C.3.5 SUMMARY

This section provides an indication of the many methodological approaches that can be taken to the measurement of living standards. It can be seen that the different approaches vary with regard to the living standards indicators used, and study outcomes can be significantly affected by methodology. The choice of an appropriate methodology is, therefore, critical to ensure the results of any given study can be legitimately used for the purpose for which it is intended.

C.4 RECENT STUDIES OF AUSTRALIAN LIVING STANDARDS

Two major Australian living standards studies have been conducted in recent times: the Australian Standard of Living Study and the Australian Living Standards Study. The Australian Standard of Living Study was undertaken in 1987 by Peter Travers and Sue Richardson, the findings of which are presented in their book entitled *Living Decently Material Well-Being in Australia* (1993). The Australian Living Standards Study was conducted by the Australian Institute of Family Studies during the period 1991 to 1993. The analysis of the data collected in this study is as yet incomplete, and a final report outlining the study's findings has not been produced.

Because the Australian Institute of Family Studies project is incomplete, there is basically only one relatively recent study of Australian living standards available. The extent to which this study reflects the situation in Australia in 1994 is, however, questionable. Outlined below are the features and findings of the two above-mentioned studies followed by a discussion of the usefulness of these studies in determining current Australian living standards.

C.4.1 AUSTRALIAN STANDARD OF LIVING STUDY

Purpose and Methodology

The Australian Standard of Living Study (ASLS) was undertaken by Peter Travers and Sue Richardson in 1987. Travers and Richardson stated that the major purpose of the study was 'to learn more about the standard of living than was revealed by just money income.' (Travers and Richardson, 1993:63).

The measure used to assess standards of living in the study was 'full income'. Full income is measured by supplementing the more commonly used concept of cash income with the value of assets and non-employed time. The range of variables about which information was collected included:

'the stock of household assets from which a flow of services was received (such as a hi-fi system, video recorder, dishwasher, telephone, car, boat, caravan, holiday house); items of wealth (rental property, superannuation, liquid funds, life assurance, whether shares were owned etc.); the amount of adult time that was not committed to employment; assistance given and received between family members outside the household; welfare receipts in kind from the Government; major health expenses; debt repayments; and so on. In addition there is information on family background, education, workforce experience, and attitudes such as optimism and happiness'(1993:63).

The information was collected by way of a sample survey. The sample was randomly selected and comprised members of the Australian population aged between 20 and 74 and living in private dwellings. Persons who were homeless, living in caravan parks, institutions or remote areas were excluded. The information was collected by way of a self-administered questionnaire although assistance was provided if required. The survey achieved a high response rate with responses being received from 76 per cent of eligible people with whom contact was made and 65 per cent of the estimated total sample (1993:63).

The study methodology involved the development of two standard of living indices, (SINDEX and SINDEX2). These indices were constructed on the basis of 40 separate pieces of information collected from each member of the survey population regarding consumption, participation and financial activity. SINDEX reflected variables which, in the researchers' opinions, were clearly linked with material well-being, whilst variables associated with lifestyle and affluence were excluded. SINDEX2 was based on SINDEX and included variables relating to affluence. A more detailed description of Travers and Richardson's methodology can be found in Background Paper No. 2.

Whilst the ASLS provides one of the most complete sets of data on Australian living standards, there are gaps in the information it contains. Data deficiencies identified by Travers and Richardson include the incomplete nature of the inventory of private wealth, the paucity of information on the value of each item of wealth, and difficulties associated with the small sample size (1993:63). Brownlee(1990:53-4)also notes that the indicators chosen for use in the study may not be the most appropriate measures of deprivation, because they do not necessarily reflect those considered important by society. Further, like Townsend's study, the ASLS does not address the issue of whether respondents lack an item as a result of choice or

constraint. The study is, nonetheless, recognised as extremely useful in providing information on living standards in the Australian context.

Main Findings

Travers and Richardson main finding is that 'at the end of the 1980s most Australians were indeed 'living decently' (1993:v). They note that Australia is amongst the most equal countries in the world in terms of income distribution, and that there are high levels of social mobility and material affluence. It is noted that whilst disadvantage exists:

'...disadvantage in one aspect of life is often offset by advantages elsewhere. For instance, the aged in Australia do not rank high in terms of income. However, they do rank high in terms of home ownership, and in other material comforts. Similarly, the spillover from income level to social activities such as visiting friends or having friends around for a visit, engaging in hobbies, or simply feeling happy about life, is small' (1993:vi).

The study found that in an historical context 'in absolute terms the standards of the present have never been equalled' (1993:66). This finding holds true across many indicators including real purchasing power per person, average hours worked, standards of housing, extent of education, quality of medicine and equality of opportunity.

Whilst international comparisons have suggested a decline in Australia's relative standard of living, Travers and Richardson argue that this result can vary according to the criteria used to make the comparisons. For example on the basis of GDP per capita, Australia ranks 17th in the world. The Human Development Index (which takes into account GDP per capita, adult literacy and life expectancy), however, ranks Australia 9th.

An analysis of the characteristics of households at the top and bottom of the income distribution in Australia reveals that households at the bottom of the distribution contain people who are single, the aged and, 'overwhelmingly', persons reliant upon government social welfare benefits (particularly sole parents)(1993:104). Travers and Richardson found that 84 per cent of average weekly income for households in the bottom quintile were obtained from government pensions and benefits, whilst wages and salaries contributed 6 per cent.

In contrast, households at the top of the income distribution tend to contain married couples (both of whom work), with children. Ninety per cent of the income from these households is obtained through earnings.

In summary, the Australian Standard of Living Study found Australia in the late 1980s to be a relatively egalitarian society. This result is attributed to a number of factors including 'low unemployment; a 'good enough' social security system; very high levels of home ownership; and high quality government provision of specific goods and services'(1993:ix). The authors stress, however, that this situation is not guaranteed to extend into the 1990s as different economic conditions (e.g. higher levels of unemployment) can yield very different results.

C.4.2 AUSTRALIAN INSTITUTE OF FAMILY STUDIES AUSTRALIAN LIVING STANDARDS STUDY

Purpose and Methodology

The Australian Institute of Family Studies (AEFS) has been commissioned by the Commonwealth Government through the Social Policy Division of the Department of the Prime Minister and Cabinet to conduct a three year study of the living standards of Australian families. One of the most significant stated aims of the study is to examine the adequacy of income as a single indicator of living standards.

The Institute adopted the Scandinavian level of living approach as the analytical framework for the study. This approach allows for the development of a range of living standards indicators relating to 14 spheres of life as follows: health, employment, housing, economic resources, transport, education, recreation, the physical environment, security, community services, social and political participation, access to information, family relationships, and personal well-being.

In recognition of criticisms directed at other living standards studies, the ALFS study was undertaken in such a way as to ensure living standards were examined from the perspective of respondents in addition to researchers. In practical terms this meant that, for example, respondents were asked 'not only whether they possess[ed] an item or participate[d] in an activity but also about the importance of those items and activities to them' (Brownlee, 1990:56).

The study was conducted by undertaking personal interviews with the members of approximately 500 randomly selected families in each of the 12 selected localities across Australia. In addition to collecting basic information about each member of the household and the household in general, data were collected relating to the provision of services in the selected localities and assessments by planners, service providers and user groups of the adequacy of existing services.

The Australian Living Standards Study (ALSS) differs from other similar studies in that it:

'vastly expands the range of available measures of living standards, it emphasises the role of publicly and privately provided services, it examines psycho-social as well as economic measures, it measures the living standards of individuals as well as households especially the living standards of children, and, finally, it investigates the effects of the type of locality in which people live' (Brownlee and McDonald, 1993:2).

It should be noted, however, that the ALSS is limited to families with at least one child aged less than 20 years. The study, therefore, offers no information on the living standards of the myriad of other family types in the community.

Main Findings

Whilst the original intention of the ALSS was to prepare individual reports relating to each of the 12 localities surveyed and a final consolidated report containing overall study findings, this has not yet occurred. The work program of the AIFS is currently under review and the future of the ALSS has not yet been determined.

Although some of the individual locality studies have been completed, the results of each study are influenced by the particular socioeconomic characteristics of the locations in question. As a result, the findings of each of the locality studies cannot be considered representative of Australia as a whole, and an overall picture of living standards in Australia today cannot be drawn. Unfortunately, the lack of comprehensive information relating to living standards across Australia is not unique to this study and is one of the major obstacles to gaining an understanding of Australian living standards.

Notwithstanding this, an example of the types of results to emerge from the ALSS can be found in Brownlee and McDonald's *In Search of Poverty and affluence An Investigation of Families Living in two Melbourne Municipalities (1993)*.

This paper examined the relationships between equivalent household income and a number of other indicators including:

- economic outcomes related to income (i.e. items you can buy with money, or activities linked to the presence or absence of money);
- non-economic outcomes such as health status and psycho-social indicators of well-being; and
- correlates of income such as employment, receipt of social security benefits, occupation, education and non-English speaking background.

The preliminary findings of this study supported the concept of a threshold of relative disadvantage at around 120 per cent of the Henderson Poverty Line. The study found that 'below this threshold, families were much more likely to experience various forms of economic disadvantage' (Brownlee and McDonald, 1993:30). Examples of the types of disadvantage likely to have been encountered include:

- to have housing costs more than 30 per cent of net household income;
- to have no car;
- not to have money for children's school excursions;
- not to have access to \$1500 within a week if required in an emergency;
- not to have home contents insurance.

Not unexpectedly, the study found that DSS pensioner and beneficiary families tended to cluster heavily in the two lowest income deciles, and that it was families in these deciles that suffered the greatest levels of relative deprivation. The authors noted, however, that when compared against measures of absolute or austere poverty, it could not be said that all families below the threshold of relative disadvantage were destitute (1993:30). For example, the majority of families in this study who were below the threshold of disadvantage owned cars, had housing costs less than 30 per cent of their net income and could afford to pay for leisure activities.

Unfortunately, the extent to which the findings of this study hold true for the broader community are unknown.

C.4.3 SUMMARY

In summary, it can be said that only one comprehensive study of Australian living standards (of which the results are known) has been undertaken in recent years, the Australian Standard of Living Study by Travers and Richardson. The extent to which this study reflects living standards in Australia in 1994 is, however, questionable. As noted by the study's authors, living standards are influenced by a range of economic and social conditions, a number of which have changed since 1987 (the time the study was undertaken).

The most significant conditional change relates to levels of employment. While employment growth was relatively strong in the late 1980s, the early 1990s have been characterised by record levels of unemployment. As employment levels have been identified as one of the key factors influencing living standards (Travers and Richardson, 1993:ix), the results of a living standards study conducted in 1987 may not accurately reflect living standards in contemporary Australia.

This lack of comprehensive and up-to-date information on Australian living standards makes it very difficult for the Department (or others) to determine whether the primary objective of Australia's income support system, that is to ensure that recipients have an adequate income to enable them to attain and maintain an adequate standard of living, is being achieved.

C.5 THE LIVING STANDARDS OF DSS CLIENTS

There are very few current analyses of the living standards of DSS clients compared with persons in the broader community. Whilst a number of studies have been undertaken over the years that touched on the living standards of different types of clients, it would appear that none have explicitly analysed relativities across the full range of living standards indicators (i.e. by examining indicators other than the living standards proxy of cash income).

A recent study that does examine relativities across a broad range of indicators is that undertaken by Helen Brownlee and Simon Gibbons of AIFS (1994 unpublished). This analysis was undertaken in 1993-94 and was based on data collected in the ALSS study in 1991-93. Whilst the scope of this study was extremely narrow, the authors do offer some observations about the comparative living standards of DSS and non-DSS clients.

A summary of the findings of this and other studies follows, along with a concluding observation about the availability of data relating to the living standards of DSS clients.

C.5.1 AIFS STUDY OF THE LIVING STANDARDS OF DSS CLIENTS

Purpose and Methodology

The AIFS Study of the living standards of DSS clients was commissioned by the Department of Social Security as a 1992-93 Contract Project. The study was undertaken by Helen Brownlee and Simon Gibbons, and its purpose was to compare DSS clients and non-DSS clients on a range of indicators of living standards used in the ALSS study.

It should be noted that the scope of the study was extremely narrow:

- the study was restricted to an analysis of the situation of a sample of households in the four local government areas of Berwick, Box Hill, Melbourne and Werribee in Victoria;
- only 19 per cent of the families surveyed were DSS client families (defined as families where one or both of the parents received DSS income support or Additional Family Payment; and
- the study was limited to an analysis of the comparative situations of a single family type those with at least one child aged less than 20 years.

As a result of the study's limited scope, the extent to which the findings of this investigation apply to the DSS client population in general is not known.

Main Findings

The main conclusion to arise from the study was that 'that DSS Client families in the four areas of Melbourne are more likely to experience various forms of disadvantage than other families in these localities, although some aspects of disadvantage vary according to location' (Brownlee and Gibbons, 1992:1). The study found that :

'DSS Client families are more likely to have experienced financial difficulties, less likely to be able to obtain a small amount of money in an emergency, have less wealth, are more likely to have debts that they cannot meet, to receive financial support from people outside the household and have a member of the household go without a meal because of a shortage of money' (1992:1).

Other selected findings were as follows:

- 'DSS parents were significantly less concerned than other parents about having a job which was interesting, responsible and satisfying and more concerned about having a job with little stress or pressure;

- [DSS Clients] were less likely to live in a separate house, more likely to be renting, particularly public housing ... more likely to have 'overcrowded' housing;
- [DSS Clients] were more likely to have used a community service such as legal aid services, financial counselling services and the services of welfare agencies;
- [DSS families] were no more likely than other families ... to have been a victim of crime in the past three years;

In looking at non-economic measures of well-being, DSS parents are more likely than other parents to report themselves as having 'poor' or 'fair' health, to have a weaker sense of control over their lives, have lower self-esteem, to be less satisfied with a number of different aspects of their life, such as their level of education / qualifications, their independence or freedom, the respect or recognition they receive, what they are accomplishing in their lives, the overall living standard and their lives as a whole' (Brownlee and Gibbons, 1992:1-3).

Whilst these findings clearly raise questions about the adequacy of social security payments, the study would need to be considerably broadened before any sound conclusions about adequacy could be drawn.

C.5.2 OTHER ANALYSES OF THE LIVING STANDARDS OF DSS CLIENTS

A number of studies have been undertaken that examine the issue of the 'adequacy' of social security payments. Many of these studies attempt to measure adequacy by examining the relativities between payments received and a defined benchmark. Benchmarks against which payments have been assessed include the Henderson Poverty Line, various equivalence scales, the levels of other conceptually similar payments and occasionally the standard of living of other nominated groups.

One study that touched on the issue of assessing adequacy by looking at relative living costs and conditions was that entitled *Living Conditions and Costs of the Young Unemployed* (1993). This study was undertaken jointly the Social Policy Research Centre (SPRC) and DSS and its purpose was to:

'collect and present data on the incomes, costs and circumstances of the young unemployed, with a focus on providing information which would contribute to assessing the pattern of adequacy afforded by the structure of income support payments '(1993:1).

As noted, whilst this study looked at relativities in living standards, the analysis was restricted to relativities amongst the young unemployed and did not extend to comparing the situations of DSS and non-DSS clients.

Various studies have also been undertaken that compare the living standards of, for example, age and sole parent pensioners (DSS 1993 and DSS 1994b) with those of the general community. Such studies generally, however, use the proxy of income in conjunction with a tool such as the Henderson Poverty Line to indicate relativities, and fail to factor in other

way-of-life indicators. Whilst these studies, therefore, provide quite a good indication of where DSS clients stand in terms of the income distribution and the Henderson Poverty Line, they reveal little about the type of lifestyles people are actually able to achieve as a result of a combination of their income and other contributory factors.

In summary, therefore, there appears to be very little information currently available which allows the explicit comparison of the living standards either between DSS client groups or between DSS and non-DSS clients. This lack of information will pose a problem if it is decided to explore further the 'descriptive' approach to benchmarking discussed in detail in the report referred to in the Introduction. This approach focuses specifically on identifying the relative adequacy of current payment levels by identifying those clients achieving poor living standards outcomes under the current payment structure, and the factors contributing to these outcomes.

C.6 POTENTIAL SOURCES OF LIVING STANDARDS DATA

The main conclusion that can be drawn from Sections 4 and 5 above is that there is very little empirical data available regarding the living standards of DSS clients, or those of the broader community. This lack of information is undoubtedly partly a consequence of the huge investment required, in terms of both time and money, to obtain and maintain up-to-date living standards data. An indication of the costs associated with undertaking such studies is provided by the AIFS Australian Living Standards Study, where the data collection phase alone cost around \$3 million.

In recognition of the expense involved in undertaking full-scale living standards studies to assist in determining the adequacy of social security payments, the project Advisory Group has sought to identify other potential sources of living standards information. One source of such data is the client surveys undertaken by Australia's various emergency relief agencies.

The client profile studies undertaken by these agencies can provide a wealth of information about client characteristics including: main income source, age, sex, ethnicity, family type, etc.. A common finding of these studies is a high concentration of DSS payment recipients in the client base of these organisations. For example, a national survey of emergency relief providers conducted in 1990 found that:

'An overwhelming majority (87 per cent or approximately 9 out of every 10 people who seek emergency relief) depend on social security benefits or allowances for their income, with the unemployed (38 per cent) and sole parent pensioners (25 per cent) by far the largest recipients of emergency relief services, followed by people on sickness / disability payments (18 per cent). Of the remaining recipients, 6 per cent fall within the wage/ salary / own business category and a further 5 per cent of recipients have not income at all (With the largest proportion of these serving Department of Social Security waiting periods' (Reark, 1990).

Findings such as these lead some analysts to conclude that social security payments are in fact 'inadequate'. Others argue that these results are a reflection of other factors such as higher levels of awareness of these services amongst DSS clients, proximity of the services to clients, etc..

Meetings have been held with selected emergency relief providers in the context of this project to explore ways in which such organisations could contribute to the Department's understanding of the living standards being achieved by DSS clients. These meetings were particularly fruitful in assisting the project team to develop a preliminary understanding of the characteristics of DSS clients achieving relatively poor living standards outcomes under the current payment structure, and the factors contributing to these outcomes.

Notwithstanding the value of these meetings and the qualitative data obtained, it is recognised that caution needs to be exercised when interpreting data obtained from emergency relief organisations. Advisory Group members have highlighted the fact that many factors can influence the client profiles of these organisations and that information obtained should be interpreted carefully. The types of factors that can influence client profiles include an organisation's policies on the types of people it will assist (e.g. women only), and the demographics of the area in which a service is located (e.g. the level of concentration of certain DSS client or ethnic groups in the area the Organisation services). The potential of this data source to contribute to the Department's understanding of the living standards of clients could be further explored if the project proceeds to Stage 2.

Other identified potential sources of living standards data include:

- the Australian Living Standards Study. As mentioned previously, a vast amount of information was collected in the context of this study, large amounts of which have not yet been analysed. It has been suggested that the Department may be able to obtain useful data from this source to complement any more up-to-date information that can be obtained through other avenues;
- the Australian Bureau of Statistics (ABS). The ABS conducts a number of studies (e.g. the Household Expenditure Survey and the Census) that collect living standards data. Examples of the type of information available from these sources include housing conditions (e.g. incidence of overcrowding), health status, debt position, insurance coverage (e.g. possession of private health insurance, home contents and car insurance), and leisure activities, to name a few. The full range of available data could be further explored during future stages of this project;
- the Community Research Project being undertaken by the Strategic Development Division within DSS. The aim of the Community Research Project is to examine the potential of possible new services that will:
 - complement payments and services already provided by DSS; and
 - provide more opportunities and choices to enable people on low incomes to take action themselves to improve their living standards.

The Community Information Network (a community computer network) will be tested in a number of research locations throughout Australia, whilst the Action Research Projects will test new and innovative services aimed at improving the living standards of people on low incomes.

The evaluation of the Action Research Projects and the Community Information Network will include the analysis of participant data, an evaluative case study of each Action Research Project and the Community Information Network, and the comparative analysis of the efficacy of the projects to bring about improvements in living standards. The evaluation will generate in the research sites, a baseline measure (both subjective and objective items) of the living standard of people on low incomes, and identify the potential impact of possible new services and resources on living standards generally and the specified areas in particular.

The above discussion reveals that whilst there are currently no consolidated and comprehensive sources of living standards data, there are a number of potential sources of such information that the Department could consider exploring.

C.7 CONCLUSION

Very little is known about either current Australian living standards (where living standards are defined as comprising cash income in addition to other economic resource and way-of-life indicators), or those of DSS payment recipients. This is largely a consequence of the huge investment required to obtain and maintain up-to-date living standards information. Experience has shown that living standards studies are expensive and time consuming to conduct, and that the collection of comprehensive data is often achieved at the expense of timely data availability.

The expense is compounded by the need to conduct living standards studies regularly to ensure that the results reflect prevailing socioeconomic characteristics.

Because we have little knowledge of the relative living standards being achieved either between DSS client groups, or between clients and the wider community, it is very difficult to determine whether current payments are 'adequate' to attain and maintain an 'acceptable' standard of living (however that may be defined). There is, therefore, a critical need for comprehensive and up-to-date information on Australian and DSS client living standards, if the adequacy of social security payments is to be determined. The challenge is to identify efficient and cost effective ways of obtaining this information.

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