

Poverty

& Inequality

IN AUSTRALIA

Defining and measuring poverty

Dr Peter Davidson

January 2025

# Measuring poverty project

---

## Purpose

- Build consensus on income-based poverty measures specifically, and their relationship to wider measures of poverty and disadvantage including multidimensional measures; and
- Inform the future methodology of the Partnership's research using income-based poverty measures.

## Approach

- Discussion paper circulated to poverty researchers and PIP partners
- 20 questions for feedback on defining & measuring poverty, focussing on income-based measures

# Official and unofficial measures: where we're at

---

## **Unlike most countries Australia lacks an official poverty measure.**

It has been left to academic researchers and community organisations (including the *Poverty and Inequality Partnership*) to carry the torch for poverty research:

- Australia has adopted the UN *Social Development Goals*, which require us to develop a national definition of poverty and to reduce it over time.
- However, official measures of wellbeing such as the *Measuring What Matters* framework are silent on poverty.
- The government's Economic Inclusion Advisory Committee (EIAC) was tasked with '*providing advice on economic inclusion including policy settings, systems and structures, and the adequacy, effectiveness and sustainability of income support payments*', yet poverty reduction was not included in its Terms of Reference.
- EIAC has recommended that official measures of poverty and targets to reduce it be developed by government, underpinned by a data, evidence and consultation strategy.

# Defining poverty

---

“People are in poverty when their **economic resources** are inadequate to attain a **socially acceptable living standard**.”

- *income-based measures* are ‘indirect’ measures of poverty, focussing on the primary *input* to poverty (income as proxy for a lack of **economic resources**);
- ‘*direct*’ measures focus on the *outcomes and experience of poverty* (an **unacceptably low living standard**) including uni- and multidimensional measures  
e.g. inadequate diet, insecure housing, poor health, social isolation, a struggle to make ends meet.

# Dual-track poverty measurement framework

---

## 1. Measures of **inadequate economic resources**:

*Income-based 'poverty lines', taking account of other economic resources (e.g. housing)*

**Informed and validated by:**

*Minimum standards for consumption of essentials (e.g. Budget Standards)*

## 2. Direct measures of an **unacceptably low living standard**:

*Measures of the outcomes of inadequate resources across different domains of wellbeing (e.g. deprivation of essentials, multidimensional poverty measures)*

**All guided and informed by:**

*Lived experience of people at risk of poverty.*

# Measures of economic resources: income

---

ABS Survey of Income and Housing defines income as:

*‘all current receipts, whether monetary or in kind, that are received by the household or by individual members of the household, and which are available for, or intended to support, current consumption.’*

- Includes disposable income - earnings, investment income, social security & income tax
- And in-kind resources – the benefits of owner-occupied housing & govt-funded services
- Emphasis is on *current (weekly or annual) spending power*

Alternative economic definition of income:

*‘current consumption plus change in wealth’*

- Takes account of value of all assets (housing, investment assets, etc) *including saving for future consumption*

# Measures of economic resources: wealth and housing

---

In addition to their current income, people can avoid poverty by using their wealth:

- If they own their home, they can reduce housing costs
- Or they can draw down savings (bank accounts, super if retired)
- Not all assets are easily converted into cash (e.g. property, super before retirement)
  - though they may be able to borrow against them

We can take account of wealth by:

- Either including the value of the home in income ('imputed rent') or adjusting income for housing costs
- Adding a proportion of 'liquid' assets to income
- Converting all wealth (minus debt) into an implied annual income stream ('deeming')

# Income based poverty measures

---

## 1. *50% or 60% of median equivalised household disposable income*

- Used by OECD and EU, respectively
- Logic is that people with income well below the 'middle' household cannot afford essentials (as commonly understood in Australian society – so a 'relative' measure)

## 2. *Henderson Poverty Lines*

- Recommended by national poverty inquiry in 1976
- Logic is a 'family of four' needed at least the 'basic wage' + family payments to cover the essentials – so based on an Australian wage benchmark (also 'relative')
- Later changed to 56.5% of average wage, then indexed to household disposable incomes, so conceptually similar to '% of median income' approach

### *'Equivalised'*

- A set of different poverty lines for households of different sizes

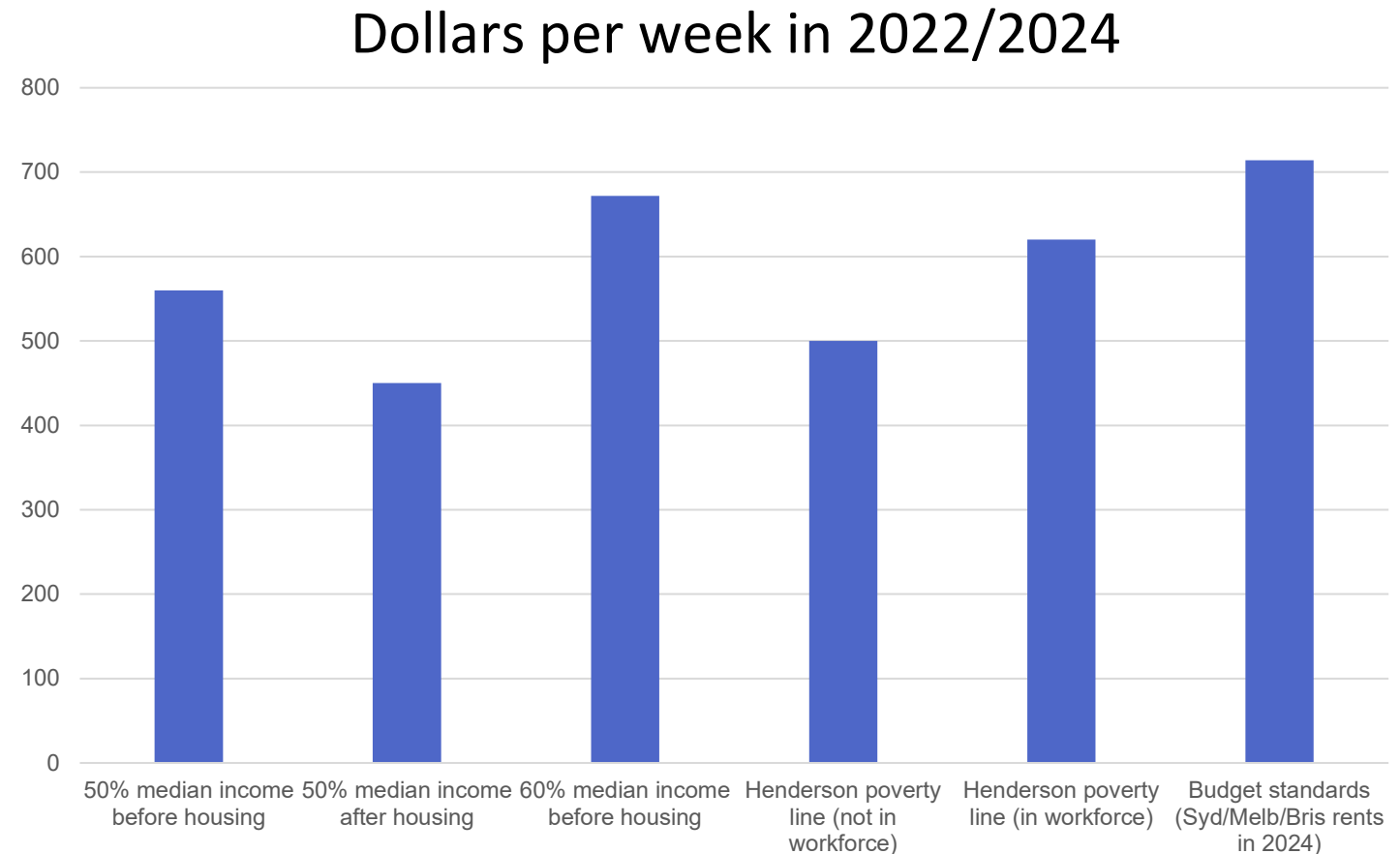
### *'Before or after housing costs'*

- Both measures can be adjusted to take account of housing costs, by subtracting typical housing costs from poverty lines and then subtracting each household's housing costs from their income



# Poverty thresholds for a single adult

- 50% or 60% of median equivalised household disposable income
- Henderson Poverty Line (in or not in the workforce)
- before or after housing costs
- Budget Standards (minimum budgets)



# Outputs of income-based poverty research

---

Number and percentage of the population in poverty

Depth of poverty/ poverty gaps

Poverty dynamics (persistence, transitions)

Causes of poverty (economic conditions, demography, policy)

People affected :

- people of different ages, especially children,
- women, men and other genders,
- family type,
- people relying on different income sources, especially social security payments,
- labour force status,
- housing status,
- geographic location,
- First Nations peoples,
- people with disability,
- - migrants, including more recent arrivals; and
- people with diverse ethnic and linguistic backgrounds more broadly.

# Direct measures of inadequate living standards

---

## Material deprivation (including PIP research)

- Lack of essentials because people can't afford them
- Can convert into an index
- Multiple deprivation – lacking at least X essential items

## Multidimensional poverty index:

- Used in many other countries, need to develop measures for Australia
- Indicators of wellbeing across key domains
- Poverty thresholds set for each indicator
  - People below thresholds for at least X indicators are in poverty

## Self-perceived wellbeing (including PIP and other research):

- Living in poverty
- Financial stress
- (Dis)satisfaction with living standards

# Relationship between income-based poverty measures and direct measures of deprivation

---

## Income-based measures:

- Simple and widely understood, sends a powerful message about minimum incomes
- Can be used to benchmark social security
- Can readily measure trends and influences & impacts on different groups
- But they don't capture the *impacts* of poverty and may appear arbitrary without validation
- And may not take account of all resources available to people and how they use them
- It's hard to keep them simple while accounting for diverse needs

## Deprivation/multidimensional measures of inadequate living standards:

- Impacts of inadequate resources are visible, sends a powerful message about the experience of poverty
- Can be used to inform other social policies (e.g. health, education)
- Can validate income-based measures
- But more complex, with greater data requirements
- Tension between simplicity/useability and capturing 'core' components of wellbeing
- Harder to track trends as community living standards change

# The path to official poverty measures

---

Commonwealth government establishes an open, transparent and rigorous process to set official poverty measures:

- Informed by lived experience, expert opinion, civil society advocacy

## First step:

- Develop income-based poverty measures
  - since consensus is closer on this and more work has been done already outside Government

## Second step:

- Develop multidimensional measures of inadequate living standards
  - building on work already done re: material deprivation and self-assessed poverty
  - developing a Multidimensional Poverty Index for Australia

# Poverty thresholds in recent Australian research

Research	Income-based poverty measure
Productivity Commission (2024), <a href="#">Fairly equal? Economic mobility in Australia</a> , Research paper.	50% of median income, after housing costs
Fair Work Commission (2024), <a href="#">Statistical Report, Annual wage review 2023-24</a> .	60% of median income
Wilkins R, <a href="#">HILDA Statistical Report</a> 2023, Melbourne Institute	50% & 60% of median income, before & after housing costs
Davidson P; Bradbury B & Wong, M (2022) <a href="#">Poverty in Australia 2022: A snapshot</a> . ACOSS & UNSW Sydney	50% & 60% of median income, after housing costs
Duncan A (2022), <a href="#">Behind the Line: Poverty and disadvantage in Australia</a> . Bankwest Curtin Economics Centre	50% & 30% of median income, after housing costs
Bradbury B & Saunders P (2021), <a href="#">Housing costs and poverty: analysing recent Australian trends</a> . Journal of Housing and the Built Environment, 15 September 2021.	50% & 60% of median income, after housing costs
Philips B, Gray M & Biddle N (2020), <a href="#">COVID-19 JobKeeper and JobSeeker impacts on poverty and housing stress</a> . ANU Centre for Social Research and Methods	50% of median income, before & after housing costs
Li J et al (2020), <a href="#">The Impact of COVID-19 and policy responses on Australian income distribution and poverty</a> . NATSEM, University of Canberra.	50% of median income, after housing & childcare costs

# Budget standards

---

## Method:

- Calculate minimum household budgets line-by-line
- Based on expert judgement (e.g. adequate diet) and normative data (what most people buy as essentials)
- Budgets vary by household composition (so e.g. can estimate costs of children)
- Challenges: geographic variation in housing costs; how to account for the need to save for contingencies/depreciation of equipment; need to update list of essentials every 5 years or so to keep up with changes in need/community expectations (resource intensive)

## History:

- Used to measure adequacy of minimum wages (1905)
- SPRC developed first budget standards for social security purposes in 1996
- These have subsequently been updated