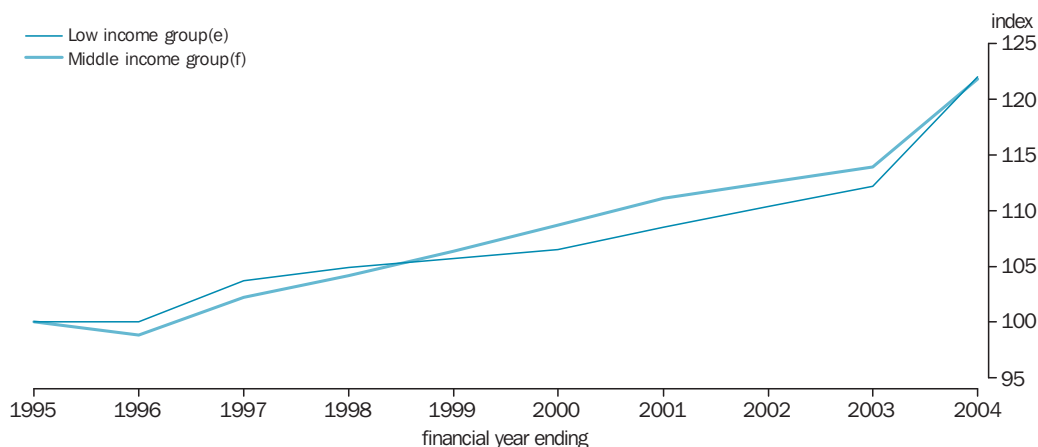


Economic hardship: key points

Average real equivalised disposable household income(a)(b)(c)(d)



(a) Disposable (after income tax) income amounts are equivalised by applying the OECD equivalence scale.¹ (b) Base year is at 1994–95 and equals 100. (c) The equivalised income amounts are adjusted for changes in prices as measured by the Consumer Price Index (CPI). (d) No survey was conducted in 1998–99 or 2001–02. The values shown for these years are mid-point values between the survey values for 1997–98 and 1999–2000 and for 2000–01 and 2002–03. (e) People in the 2nd and 3rd income deciles from the bottom of the distribution when all people are ranked, from lowest to highest, by their equivalised disposable household income. (f) People in the middle income quintile (5th and 6th deciles) after being ranked, from lowest to highest, by their equivalised disposable household income.

Source: Data available on request, *Survey of Income and Housing*.

Between 1994–95 and 2003–04 the mean real equivalised household income of low income people rose by 22%, the same rise as for people in the middle income group.

The relationship of economic hardship to progress

Society generally accepts that people should be able to enjoy some minimum material standard of living. People who cannot achieve such a minimum due to lack of economic resources can be described as experiencing economic hardship. There is little consensus, however on how such a minimum should be defined or measured.

About the headline indicator and its limitations: Average income of people with low income

For most people, household income is the most important determinant of their economic situation. People living in households with low income are more likely to have insufficient economic resources to support a minimum material standard of living. However, income is not the only economic resource available to people.

Household expenditure data indicate that households with the lowest levels of income, as measured in household surveys, tend to have higher levels of consumption than households with slightly higher levels of income, implying that they have greater access to other economic resources such as wealth. Therefore the headline indicator focuses on changes in the average disposable (after tax) income of people close to the bottom of the income distribution (namely, the 20% of people in the second and third lowest income deciles).

Economic hardship: Other indicators

People with low economic resources, people in households with low average equivalised household expenditure on goods and services, proportion of population with government pensions and allowances as their principal source of income, proportion of population with high financial stress.

Some differences within Australia

Indicators of the economic situation of the household identify several groups to be most at risk of experiencing low material standards of living. They include Indigenous Australians and one parent families.

Links to other dimensions

See also the commentaries *National income*, *Education and training*, *Work*, *Health*, and *Family, community and social cohesion*.

Economic hardship

Progress and the headline indicator

Society generally accepts that people have a right to enjoy some minimum material standard of living, that is, to consume a minimum standard of goods and services. People who cannot achieve such a minimum due to the lack of economic resources can be described as experiencing economic hardship. However, there is no consensus about the minimum level of goods and services that is adequate or the amount of economic resources that an individual requires to pay for those goods and services. Moreover, views about a minimum standard change over time and are related to the norms of the community. There are therefore no widely accepted measures of the extent to which people fall below minimum living standards, and the numbers of people that fall below.

It is possible to measure the economic situation of households that have lower levels of economic resources such as income and wealth, and are therefore more likely to have standards of living below an acceptable minimum. It is also possible to identify the types of households that have lower levels of expenditure and therefore potentially also lower standards of living. A third and more direct approach to identify those who might have low living standards is to identify households that appear to be experiencing the greatest levels of economic difficulty.

As household income is the major component of economic resources for most households, it is a key determinant of the economic situation of households. The headline economic hardship indicator shows the growth in average real equivalised disposable income of people close to the bottom of the income distribution, that is, the 20% of people in the second and third lowest income deciles — the income group thought to best represent the characteristics of the people likely to have low living standards. These people are chosen rather than the lowest and second lowest income deciles because household income is not a good indicator of the total economic resources available to many people with very low recorded incomes (close to nil and sometimes negative).

The headline economic hardship indicator shows that low income people experienced a trend of rising real incomes between 1994–95 and 2003–04. The average real equivalised disposable household income of low income people is estimated to have risen by 22% over the period, although part of the increase in 2003–04 may reflect improvements to the way income was collected in the survey introduced in that year. The same individuals were not necessarily in this income grouping for the entire period. But for those people who were, their rising incomes would on average have provided a capacity to increase their standard of living. While some would interpret this increase in real income of the low income group as progress, others would consider that it also needs to be weighed against

Measuring income, wealth and expenditure

The income measure used in this commentary is a person's equivalised disposable (after tax) household income.

Household income is used in preference to personal income in recognition of the sharing of income between partners in a couple relationship and between parents and dependent children. To a lesser degree, there may be sharing with other members of the household. Even when there is no transfer of income between members of a household, nor provision of free or cheap accommodation, members are likely to benefit from the economies of scale that arise from the sharing of dwellings. However, larger households normally require a greater level of income to maintain the same material standard of living as smaller households, and the needs of adults are normally greater than the needs of children. The income estimates are therefore adjusted by equivalence factors to standardise the income estimates for household size and composition, while taking into account the economies of scale that arise from the sharing of dwellings.¹

The measure of wealth used in this commentary is net worth, that is, assets less liabilities.

Similarly to income, net worth and expenditure are also measured on an equivalised basis.¹

Groups that have been missed

Data available from ABS household collections are likely to miss some of the most disadvantaged groups, such as homeless people sleeping out and people staying in boarding houses or crisis accommodation provided by welfare agencies. Information about the numbers of people in such circumstances, the duration of these circumstances, and the factors leading to these circumstances, is difficult to obtain, partly because such groups are highly mobile. See the commentary on *Family, community and social cohesion* for more information about homelessness.

changes in community standards. Although there is no direct measure of these, one approach is to compare changes with those of 'middle' Australians. And so the headline indicator chart also shows changes in the real income of people in the middle income group (i.e. households in the fifth and sixth income deciles) which also rose by 22% between 1994–95 and 2003–04. Further information about the distribution of income between households is given in the *National Income* commentary.

Income, wealth and standard of living

As discussed earlier, people with low household income are more likely to have insufficient economic resources to support an acceptable minimum material standard of living. However, income is not the only economic resource available to households. Households that have higher levels of wealth can utilise these assets to support a higher standard of living. Higher levels of wealth support higher living standards in two ways. First, living costs can be financed for at least a limited period of time by reducing net worth through running down bank balances and similar reserves

of cash, selling assets or borrowing against assets. Second, some forms of wealth directly contribute to living standards. For example, households with outright ownership of their dwelling do not have to pay rent or mortgage interest, that is, their cash living costs tend to be lower than those who are not outright home owners. For many people, their home is the main asset they own.

In order to describe households that have both low levels of income and low levels of wealth, this commentary presents statistics on those households with both income and wealth in the lowest three deciles. These households have been termed the low economic resource group and they account for 13% of the population.

A household's material standard of living is highly related to its consumption of goods and services, which in turn is associated with its level of expenditure on goods and services. For 2003–04, it is possible to identify households with different levels of income and wealth and to compare their average levels of expenditure. In 2003–04, the mean equivalised household expenditure of all Australians was \$534 per week. This compared with \$348 per week for people in low income households and \$309 per week for those in households with low economic resources.

Differing financial needs

The financial needs of households differ for a number of reasons in addition to those directly associated with the size of the household. For example, some households have more expensive medical needs than others. Some live in regions with higher prices than others, especially those influencing housing costs; but on the other hand, regions with higher housing costs may be closer to employment opportunities or medical, educational and other services.

Cash needs can be greater when considered over longer time periods, because it is possible to defer certain expenditure for a limited time. For example, there is the need to eventually replace worn out consumer durables such as motor vehicles and white goods. There is therefore interest in identifying people who may have low income for a relatively long period of time. People dependent on many forms of government benefits are likely to have low incomes for extended periods (see box).

As there is no standard way to measure the total economic resources available to a household, nor to measure the financial needs of a household, it is useful to examine indicators of the economic situation of households which can more directly identify households at risk of or actually falling below minimum acceptable living standards. For example, there are also indicators which identify households experiencing financial stress in various forms, such as being unable to pay certain bills or make mortgage or rent payments on time, or missing out on some activities, due to a shortage of money. A summary indicator is presented in the

Dependency on government benefits

One identifiable group with relatively low incomes are those people whose principal source of income is government pensions, allowances and similar payments. To be eligible to receive most such government benefits, beneficiaries also have to have relatively low levels of wealth.

Although the welfare system is designed to assist those whom society considers are in need of help, the benefits received may be insufficient to meet the financial requirements of some households that have particular circumstances such as unexpected health bills, past debts and the like. Of particular concern are younger people who depend on government benefits for long periods of time, as they have limited capacity to build up savings or other forms of wealth that can help them deal with contingencies in the future. And in contrast to older people receiving the Age pension, they are much less likely to own their own home.

While people with social security benefits as their principal source of income are likely to have lower living standards than those with higher incomes or wealth, an increase in the number of these people does not necessarily mean more people are living with an unacceptably low level of living standards. It may reflect a broadening of the eligibility criteria for benefits and a consequent improvement in living standards for some. The reverse may also be true.

Financial stress indicators

The ABS has asked questions in several surveys about cash flow problems and aspects of deprivation.² The table includes results from the 2003–04 Household Expenditure Survey (HES). Respondents were asked about a number of potential symptoms of financial stress over the past 12 months, including whether they had various cash flow problems, such as being unable to pay certain bills on time; or whether they could not afford activities such as a night out once a fortnight, or a special meal once a week; or whether they had gone without food or heating because of a shortage of money.

Different households will respond to financial pressures in different ways, and some higher income households will also experience cash flow problems. But the incidence of different household types reporting multiple indicators of financial stress can give an indication of those most likely to have unacceptably low living standards.

Households reporting cash flow problems did not necessarily report other symptoms of financial hardship and vice versa. And some households will have a greater preference than others to forgo some expenditure to avoid cash flow problems.

This commentary uses a 'high financial stress' indicator which was presented in the article 'Household Income, Living Standards and Financial Stress' that appeared in *Australian Economic Indicators, June 2001* (cat. no. 1350.0).² The indicator summarises 15 individual financial stress indicators. In the table, the indicator 'Persons in households with high financial stress' describes the proportion of people whose household reported an incidence of five or more out of a total of 15 individual financial stress indicators.

table, and its composition is discussed in the accompanying box.

Some differences within Australia

The following table shows selected indicators of the economic situation of people living in households with different types of family composition. The types of household that appear with the highest frequency across the range of indicators can be considered to be most at risk of having living standards below minimum acceptable levels.

One parent family households with dependent children (accounting for 8% of the population, or 1.5 million people) tend to have limited economic resources, and people in these households appear to have the lowest average standard of living. In 2003–04, over one third (38%) of people in one parent family households were in the 20% of the population designated as the low income group, and 45% were in the low economic resources

group. About 36% were in the lowest expenditure quintile, and over half (56%) had government benefits as their principal source of income. At 41%, their incidence of high financial stress was much higher than that of any other group.

The proportion of children living in households with limited economic resources and high financial stress is higher than the corresponding proportion of adults. In 2003–04, for example, 53% of children in one parent family households with dependent children were in the low economic resources group, compared to 38% of adults in those households.

People aged 65 or older living in couple only and lone person households, together accounted for 10% of the total population. Most people living in these types of households had government cash benefits as their principal source of income (67%

Indicators of economic situation by household composition(a) – 2003–04

Family composition of household	Population in households:					
	Total population	In low income group (b)	In low economic resources group (c)	With PSI of government pensions & allowances (d)	In lowest expenditure quintile	With high financial stress (e)
	'000	'000	'000	'000	'000	'000
Adults	15 651	2 984	1 770	3 472	3 101	1 717
Children (0–14 years old)	3 956	937	822	797	823	764
Total	19 607	3921	2 592	4 269	3 924	2 481
	'000	%	%	%	%	%
One family households						
Couple family with dependent children	8 667	16.6	10.8	8.3	14.9	12.1
Adults	5 508	15.1	9.2	7.7	13.8	11.4
Children (0–14 years old)	3 159	19.1	13.5	9.4	16.8	13.4
One parent family with dependent children	1 529	38.4	45.1	55.8	35.9	40.6
Adults	821	34.3	38.4	47.6	32.9	37.7
Children (0–14 years old)	709	43.1	52.8	65.4	39.2	43.7
Couple only, reference person aged						
Under 65	2 720	13.1	4.3	13.7	12.3	5.3
65 or over	1 313	52.4	9.3	66.9	42.6	5.5
Other one family households	2 392	12.2	7.2	15.9	16.5	8.3
Multiple family households	420	*18.3	15.1	25.2	*14.6	*23.3
Non-family household						
Lone person aged						
Under 35	336	6.0	18.3	12.9	12.9	15.2
35–64	909	12.0	18.7	30.8	25.5	18.1
65 or over	717	35.9	21.1	76.5	56.1	5.0
Group households	602	16.2	18.7	13.9	*10.3	8.6
Total	19 607	20.0	13.2	21.8	20.0	12.7

* estimate has a relative standard error of between 25% and 50% and should be used with caution.

(a) The data in columns 'In lowest expenditure quintile' and 'with high economic stress' come from the Household Expenditure Survey (HES) 2003–04. Other data come from the Survey of Income and Housing (SIH) 2003–04. (b) People in the second and third lowest income deciles. (c) Persons in simultaneously both the lowest three income deciles and the lowest three net worth deciles. (d) People in households in which government pensions, allowances and similar payments are the principal source of income. (e) A summary measure of households reporting various indicators of economic stress, see separate box for more detail.

Source: Data available on request, Survey of Income and Housing 2003–04; Household Expenditure Survey 2003–04.

Aboriginal and Torres Strait Islander peoples

Low levels of employment and high unemployment contribute to the economic disadvantage of Aboriginal and Torres Strait Islander peoples relative to other Australians. For many Indigenous Australians, lower levels of educational attainment and greater geographical isolation act as inhibitors to securing skilled jobs and high wages.

Data from the 2001 Census of Population and Housing show the mean equivalised gross household income for Indigenous people was \$364 per week compared with \$585 for non-Indigenous people. Between 1996 and 2001, the gap between Indigenous and non-Indigenous income remained the same, with non-Indigenous mean equivalised gross household income 1.6 times higher than the corresponding income for Indigenous people.

The commentaries about *Work, Education and training* and *Housing*, provide more information about factors linked to Indigenous peoples' economic hardship.

of people living in couple only households and 77% of lone persons). While they tended to have low income (with 52% and 36% respectively in the low income group), less were in the low economic resources group (9% and 21% respectively), reflecting the higher average levels of wealth of older people. A relatively high proportion were in the lowest expenditure quintile (43% of people living in couple only households and 56% of lone persons). However, as most own their own home outright, on average only a small amount of expenditure is required to cover housing costs. This is likely to be a major contributing factor on the low incidence of financial stress reported by older people (6% for people living in couple only households and 5% lone persons). It therefore seems that older people with low income are likely to have a higher standard of living than younger people with the same levels of income.

Factors influencing change

The overall vitality of the economy is a key determinant in providing jobs and therefore of the economic wellbeing of households. However, some people are unable to work, some earn more than others, consumption and investment behaviours differ, and family situations and life circumstances vary, as does the capacity of individuals to manage all these factors: they can all impact on the risk that an individual household might have an unacceptably low standard of living.

There are mechanisms to support people who fare less well. Important among them are government social support benefits to assist those with low levels of economic resources and who meet certain other eligibility criteria. The benefits are financed through taxation revenue. In addition to the direct income support payments (the pensions and allowances provided to people with limited means of their own), governments provide a wide range of education, health, housing and other indirect goods and services. Other support, provided by the work of charitable organisations (often with the

help of government) and the charitable donations made by businesses and households, help reduce the risks of inadequate food, clothing and shelter.

Links to other dimensions of progress

Changes in the standard of living will to some extent impact on, and be impacted by, many of the other dimensions of progress described in this publication.

The income generated by the economy as a whole is an important determinant of the overall living standards of the society. A strong economy is likely to present more opportunities for individuals to improve their financial situation. It also provides a greater capacity to provide support to those with the greatest need.

A low level of material standard of living is often associated with problems such as a lack of participation in work, substance abuse, poor health, poor education, poor housing, crime, social exclusion and a lack of opportunity for children. Of course changes in life fortunes can also be factors. Some people can benefit from windfall gains while others can suffer unexpected losses through crimes committed against them or other unexpected events.

See also the commentaries *National income*, *National wealth*, *Education and training*, *Work*, *Health*, and *Family, community and social cohesion*.

Endnotes

- 1 The equivalence scale used to obtain equivalised incomes, expenditure and net worth is one that has been used in many studies, including some by the Organisation for Economic Co-operation and Development (OECD). It is sometimes referred to as the 'modified OECD scale'. The scale gives a weight of 1.0 to the first adult in the household, and a weight of 0.5 for each additional adult (people aged 15 years and over), and a weight of 0.3 for each child. By weighting individuals within households the resultant income measures take approximate account of the different needs of households of different size and composition.
- 2 Results from the 1998–99 Household Expenditure Survey were published by the ABS in McColl, B., Pietsch, L., and Gatenby, J. 2001 'Household Income, Living Standards and Financial Stress' in *Australian Economic Indicators, June 2001* (cat. no. 1350.0). A more detailed analysis was undertaken in Bray, J.R. *Hardship in Australia: an analysis of financial stress indicators in the 1998–99 Australian Bureau of Statistics Household Expenditure Survey, occasional paper no. 4, 2001*, Department of Family and Community Services, Canberra. Also see Australian Bureau of Statistics 2003, *General Social Survey: Summary Results, Australia*, cat. no. 4159.0, ABS, Canberra. Results from the 2003–04 Household Expenditure Survey are available on request.