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**Improving our Understanding and Measures of Economic Hardship:
Australia's Development of a Low Consumption Possibilities Framework**

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In the development of the low consumption possibilities framework the ABS consulted with a number of organisations and researchers, whose assistance was very helpful and which is gratefully acknowledged.

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Introduction

The central concepts of economic wellbeing are those dealing with household income, wealth and consumption. These concepts are concerned with describing the total economic value of the resources received, owned, or used up by people. However there are many other factors that influence the economic wellbeing of households.

Traditionally, analyses of economic wellbeing have focussed on a single dimension of household economic resources. In Australia, and in many other countries, such studies have generally used income data, reflecting the relative frequency with which data on income is available, and also that for many households, income is their most important economic resource for meeting everyday living expenses.

However, income only provides a partial view of economic wellbeing. Income, a flow measure, can be quite volatile for people making transitions between jobs, changing their hours of work, moving into or out of study, increasing or reducing time spent caring for children, or taking extended breaks from work.

Wealth, a stock measure, is more stable, reflecting accumulated savings and investments over time, which can be drawn on in times of need. People with reserves of wealth can also utilise these to generate income and to support a higher standard of living. While some wealth is held in assets that are not easily converted into money, its existence allows people to borrow money to finance expenditures e.g. house extensions, motor vehicle purchases.

In recent decades in Australia, wealth has been a strong driver for growth in household consumption. The deregulation of the financial sector from the early 1980s has improved access to unrealised wealth accumulation, enabling people to more easily borrow to smooth their consumption. Sustained economic growth and retirement incomes policy have led to increased household wealth in the form of dwellings, superannuation and other assets.

The importance of considering income and wealth together when assessing economic wellbeing has been given new impetus by several recommendations in the 'Report by the Commission on the Measurement of Economic Performance and Social Progress' (the 'Stiglitz Commission' report) but particular recommendation 4: *Give more prominence to the distribution of income, consumption and wealth*. The report explains this recommendation as follows:

Average income, consumption and wealth are meaningful statistics, but they do not tell the whole story about living standards. For example, a rise in average income could be unequally shared across groups, leaving some households relatively worse-off than others. Thus, average measures of income, consumption and wealth should be accompanied by indicators that reflect their distribution. Median consumption (income, wealth) provides a better measure of what is happening to the "typical" individual or household than average consumption (income or wealth). But for many purposes, it is also important to know what is happening at the bottom of the income/wealth distribution (captured in poverty statistics),

or at the top. Ideally, such information should not come in isolation but be linked, i.e. one would like information about how well-off households are with regard to different dimensions of material living standards: income, consumption and wealth. After all, a low-income household with above-average wealth is not necessarily worse-off than a medium-income household with no wealth.

Analyses that consider the joint distributions of income and wealth require access to datasets that are not widely available. In Australia, the ABS has improved the range of data available from its Survey of Income and Housing (SIH) and its Household Expenditure Survey (HES) to support more comprehensive assessment of the economic wellbeing of Australians.

Micro estimates for household income, wealth and expenditure are compiled from the biennial SIH and the six yearly HES. When the HES is conducted, it is integrated with the SIH, with expenditure data collected from a subsample of SIH households. Comprehensive wealth data were first collected in SIH in 2003-04, and then again in 2005-06 and 2009-10. The HES provides expenditure data in respect of 2003-04 and 2009-10. Together these datasets provide a very rich source of information about the economic circumstances of households.

Section 1 of this paper provides an overview of a new conceptual framework, developed by the ABS, to better understand economic wellbeing and hardship. The 'Low Consumption Possibilities Framework' particularly focuses on income and wealth as the primary determinants of people's consumption possibilities, amongst many other factors, and shows how they can be used together to better identify people at risk of economic hardship. The ABS plans to publish this framework later this year.

Section 2 uses data from the 2005-06 SIH to show differences in the income and wealth distributions and to illustrate how measures that combine income and wealth data can be used to support a more comprehensive understanding of people's economic circumstances and whether individuals are more likely to be at risk of experiencing economic hardship. In particular, the paper examines how the new measures better inform our understanding of the economic circumstances of people at different stages of the life cycle.

Section 3 concludes that while it is not possible to operationalise all of the multidimensional factors influencing a household's consumption possibilities, an examination of the core determinants, that is both income and wealth, provides considerably better identification of households with low consumption possibilities, or those most at risk of experiencing economic hardship, than measures using income alone. The availability of datasets that enable these types of analyses are also discussed.

Section 1: Low Consumption Possibilities Framework: an overview

The *Low Consumption Possibilities Framework* is the first comprehensive attempt by the ABS to describe and examine the multidimensional factors influencing household economic wellbeing. Its primary purpose is to help achieve a better understanding of the characteristics and circumstances of households considered most at risk of experiencing economic hardship. The framework builds on work of the Australian Treasury (see The Treasury 2004).

The standard of living of individuals and families is greatly determined by their command over economic resources. Having a high income or having reserves of wealth extends the range, quantity and quality of goods and services that can be consumed. People with limited resources can experience economic hardship in meeting the basic costs of living and may become dependent on others to have such needs met.

In the *Low Consumption Possibilities Framework*, consumption possibilities are defined as the capacity (or capability) of people to satisfy their needs and wants for goods and services. The framework is not restricted to purely economic aspects, as many other factors influence the interplay between a household's consumption possibilities and its particular consumption needs and wants at any given time. People with low consumption possibilities have less capacity (or capability) to undertake consumption and to cope with unexpected costs. They are therefore considered to be at greater risk of experiencing economic hardship.

Figure 1 presents the key elements of the framework. It includes an inner framework summarising the main elements influencing economic or material wellbeing. The outer framework includes a broader range of elements that can influence economic wellbeing, either generally or for particular people.

1.1 Outer framework

The broader elements of the framework impact on a household's current or future consumption possibilities, or its actual current or future consumption requirements, in a variety of ways.

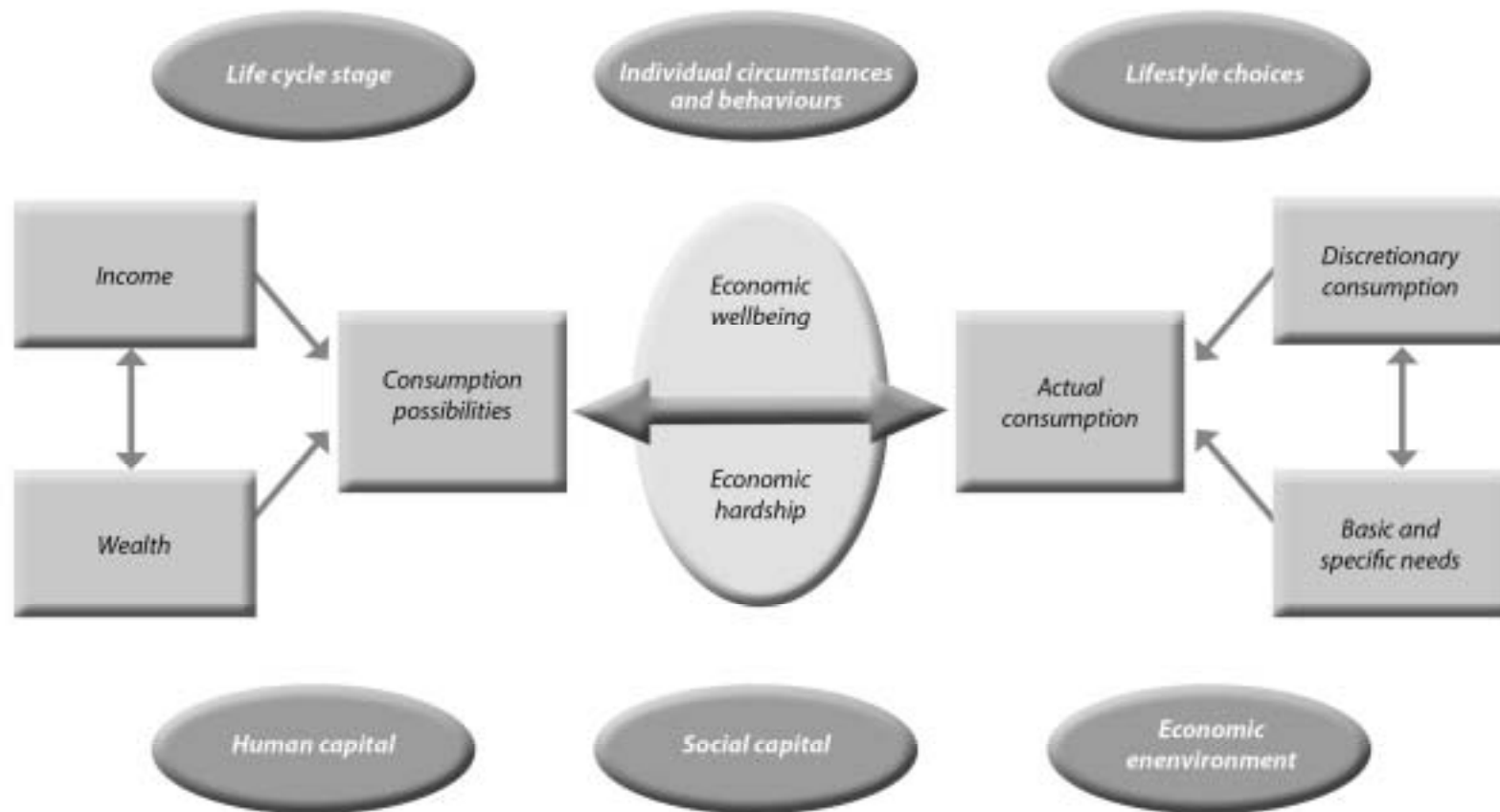
Human capital

Human capital, that is the productive capacity embodied in individuals, will be reflected to varying degrees in people's consumption possibilities and to some degree in their actual consumption. People well established in their working careers are likely to have their human capital fairly well reflected in their incomes and wealth. However for those just starting out it may be poorly reflected e.g. for recent graduates who have relatively lower incomes and who may have a significant accrued debt from their university studies. Their current consumption possibilities may be a poor reflection of their life time consumption possibilities.

Social capital

The OECD defines social capital as ... 'networks, together with shared norms, values and understandings which facilitate cooperation within or among groups' (OECD 2001). The ABS Social Capital Framework suggests that 'social capital can be accumulated when people interact with each other in families, workplaces, neighbourhood local associations, interest groups, government, and a range of informal and formal meeting places.'

Figure 1: Low Consumption Possibilities Framework



Some networks provide considerable direct economic and social support to people e.g. not for profit organisations providing assistance to disadvantaged groups or to the community more generally. Other networks help build a stronger sense of community and connection to it, which particularly support people in times of difficulty.

Economic environment

People are impacted by developments in the general economy in many ways, including the availability of suitable employment, business trading conditions, wage rates, asset values and investment returns, to mention a few. Their consumption of goods and services is influenced by the availability of suitable goods and services and the prices of those goods and services. Access to credit and finance also plays a large role in people's consumption possibilities as it can support current consumption, smooth their consumption costs and enable the acquisition of significant capital items.

Life cycle stage

Consumption possibilities and requirements generally vary with life cycle progression. A 'typical' life cycle includes childhood, early adulthood, and the forming and maturing of families. Some families transform with relationship breakdowns, with the departure of children on reaching adulthood and independence, or with the death of a spouse.

Generally incomes and wealth increase with age, at least during people's working lives. Consumption requirements increase with additional household members, notably children.

Individual circumstances and behaviours

There are a wide range of individual circumstances and behaviours that can affect economic wellbeing. Some can have significant implications e.g. lottery wins, inheritances, relationship breakdowns, large gambling losses or failure to access income support programs even when eligible. Poor physical or mental health can have profound implications for people's economic wellbeing, particularly when it impacts on participation in employment.

Lifestyle choices

To the extent that they have access to economic resources more than sufficient to support basic and specific needs, people are able to undertake discretionary consumption to support their preferred lifestyles. Their consumption purchases reflect these choices.

1.2 Inner framework

People's *consumption possibilities* are primarily determined by their after-tax incomes (including income in kind from government benefits, and after indirect taxes) and their wealth. Since both income and wealth can be used to support consumption, comprehensive assessments of economic wellbeing rely on an assessment of both types of resources.

The most important economic resource for most households is a regular income, be it earned from a job or business, provided by the government as a pension or allowance, from superannuation or earned from other assets. Income can be used to purchase goods and services required by the household, or saved and invested to expand a person's wealth.

Wealth is also an important household economic resource. Households with a relatively high level of wealth may be better able to meet their financial commitments and maintain satisfactory living standards during periods of reduced income (e.g. unemployment, incapacity) or to raise a substantial sum of money in an emergency. Such households will also find it easier to access credit and to plan for large expenditures (e.g. car, home extensions) or prolonged periods of reduced income earning capacity (e.g. while children are young or after retirement). Households with low or negative net worth may be more vulnerable to financial stress if household income is reduced for even a short period.

The *actual consumption* of a household reflects the outcomes of many household decisions concerning its consumption needs and wants. These include meeting the basic needs that all households have for items such as food and housing; any specific needs arising from its own particular circumstances, due to factors such as health or disability; and undertaking its discretionary consumption. People's consumption requirements can vary significantly with life cycle stage, and can also rise unpredictably due to illness, accidents or other life events. People in similar economic circumstances and life cycle stages can, nevertheless, have quite different consumption requirements.

Households continually face choices and decisions concerning the use of their available economic resources to support their consumption of goods and services, and for the accumulation of wealth through savings and investments. There is therefore a dynamic interaction between a household's consumption possibilities on the one hand, and its actual or realised consumption on the other. If consumption possibilities considerably exceed actual consumption, households have much greater capacity to meet their needs and have reserves to fall back on in any emergencies. People with limited economic resources, or low consumption possibilities, may face greater difficulty meeting their basic needs and constrained choices in satisfying their wants. They are therefore at greater risk of experiencing economic hardship.

Section 2: Measures of economic hardship

The *Low Consumption Possibilities Framework* summarised in section 1 identifies income and wealth as the primary determinants of people's consumption possibilities. This section describes the income and wealth distributions and compares the characteristics of people in low income households with those in low wealth households.

2.1 Data, measures and units of analysis

Data used in this paper is drawn from the 2005-06 SIH. The survey collected detailed information about the income, assets, liabilities and household characteristics of persons aged 15 years and over resident in private dwellings (excluding very remote areas of Australia), covering about 97% of the people living in Australia (ABS 2007a). More comprehensive analyses are possible with the previously published statistics for 2003-04, and again for 2009-10 when data are published in mid 2011, as expenditure data, as well as income and wealth data, have also been collected for those survey cycles. Analysis in respect of 2003-04 is included in the ABS research paper *Developing measures of economic hardship for Australian households*, due to be published later in 2010.

The main income measure used in this paper is equivalised disposable household income, inclusive of imputed rent, referred to as ***adjusted disposable income***.

Imputed rent is the net rental income imputed to flow to: people living in homes owned by the occupants; people paying subsidised rent; and to people occupying their dwelling rent free. Including imputed rent in the income measure effectively places people living in different tenure circumstances on a more consistent basis for comparative income analysis.

The main wealth measure used is **equivalised net worth** where net worth is the value of a household's assets less the value of its liabilities.

Adjusted disposable income and equivalised net worth are assessed at the household level because people, in living together with others, typically share some or all of their economic resources with those with whom they live. The measures are equivalised to enable direct comparisons of the relative income and wealth of households of different sizes and compositions. The modified equivalence OECD scale is used to adjust both measures for this purpose¹.

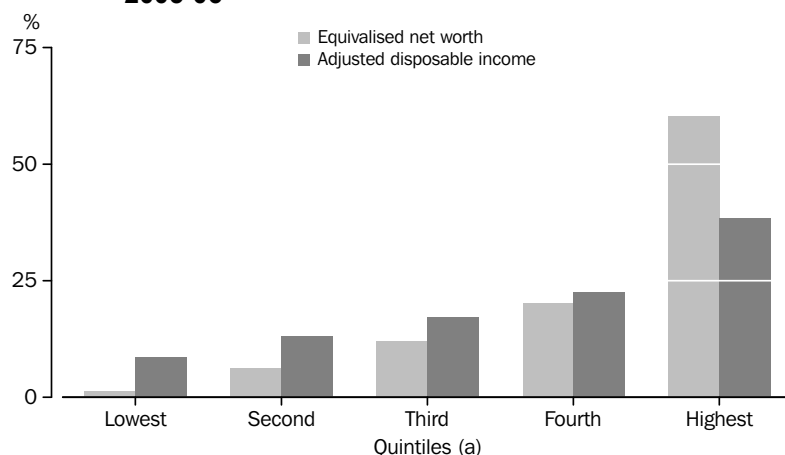
Equivalised measures can be viewed as an indicator of the economic resources available to individuals in a household. In this paper, quintile boundaries and other summary statistics such as means that are produced from these measures are calculated with respect to the relevant number of persons i.e. they are person weighted measures. This enables persons in large households to have the same contribution to the measures as people living alone.

2.2 How is income and wealth distributed across Australian households?

Wealth and income are closely interlinked. The more income a household has left after living expenses are met, the greater its capacity for building wealth, and the more wealth a household has, the greater its capacity to generate income.

Notwithstanding these relationships, wealth is distributed between households differently to income. As shown in figure 2, in 2005-06 the wealthiest 20% of Australian households had 60% of all net worth while the least wealthiest 20% of households had only 1% of total net worth. Income shares were more equally distributed, with the highest quintile receiving 38% of adjusted disposable income and the lowest quintile receiving 9% of adjusted disposable income.

Figure 2: Quintile shares equivalised net worth and adjusted disposable income, 2005-06



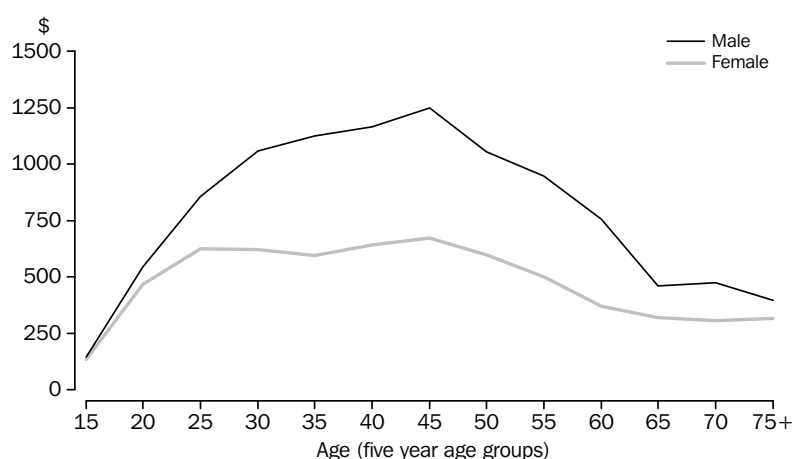
(a) Quintile boundaries are derived separately for equivalised net worth and adjusted disposable income.

Not only do the distributions of income and wealth differ, but there are also significant differences in the relative positions of individual households in the two distributions. These largely reflect the different relationships observed for income and wealth by age and life cycle stages. Many households with relatively low wealth have relatively high income, especially if they are younger households. Conversely older households may have accumulated relatively high levels of net worth over their lifetimes, but have relatively low incomes in retirement.

2.2.1 Income distribution and life cycle stages

Income levels vary considerably over a person's life cycle and are associated with two main factors. Labour force participation and the earning capacity of individuals increases with age, peaking at middle age, and declining rapidly in older age groups leading up to the nominal retirement age of 65 years (Figure 3). For females, the growth in incomes until middle age are lower than for males, reflecting that women are more likely to work part-time or take breaks from employment due to family responsibilities.

Figure 3: Gross personal income (weekly), 2005-06



The number of income earners in a household often varies over different life cycle stages (Table 1). In 2005-06, younger couples without children had the highest mean adjusted disposable income of \$898 per week, with an average of 1.9 employed persons in the household. For couples with dependent children with the eldest child under five, mean adjusted disposable income was \$702 per week (22% lower than for the young couples without children). This lower income, principally reflects the lower average number of employed persons in these households (1.5), and the larger average number of persons in these households (3.4) over which incomes are shared.

Table 1: Mean adjusted disposable income and mean equivalised net worth, by life cycle stage, 2005-06

	Number of households	Average number of persons in households	Average number of employed persons in households	Mean adjusted disposable income	Mean equivalised net worth
	'000	no.	no.	\$ per week	\$ '000
Lone person aged under 35	369.3	1.0	0.9	707	114.9
Couple only, reference person aged under 35	423.5	2.0	1.9	898	159.0
Couple with dependent children only					
Eldest child aged under 5	429.9	3.4	1.5	702	263.0
Eldest child aged 5 to 14	859.4	4.1	1.5	677	276.9
Eldest child aged 15 to 24	469.3	4.2	2.3	711	352.5
Lone parent with dependent and non-dependent children only	538.6	3.0	0.8	480	123.5
Couple with					
Dependent and non-dependent children only	264.4	4.7	3.0	734	292.6
Non-dependent children only	449.3	3.3	2.3	813	391.8
Couple only, reference person aged 55 to 64	506.8	2.0	1.2	838	651.1
Couple only, reference person aged 65 and over	678.8	2.0	0.2	566	578.4
Lone person, aged 65 and over	744.3	1.0	0.1	501	467.9
All households	7926.2	2.5	1.3	699	325.8

In 2005-06 average incomes were higher for couple households with non-dependent children, reflecting higher proportions of employed persons in these households, but were lower again for households comprising older couples and lone persons, where the number of employed persons were substantially lower.

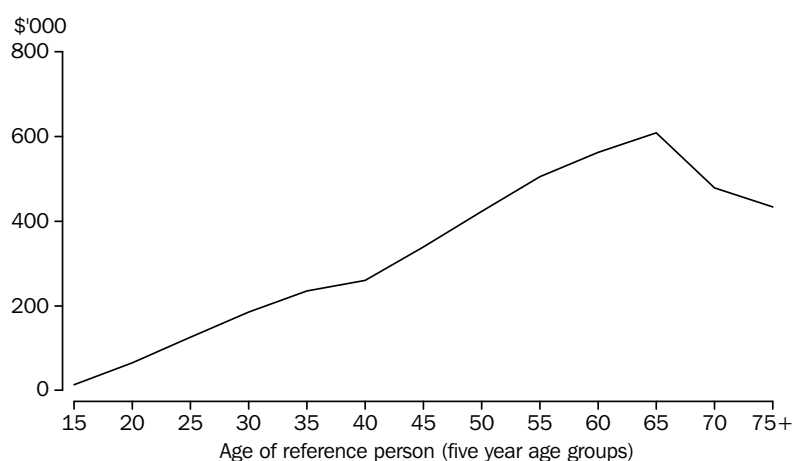
Lone parent households had the lowest mean adjusted disposable incomes, at \$480 per week. People living in households where the reference person was aged 65 and over also had low mean incomes, with lone persons' incomes at \$501 per week, somewhat lower than for couple only households in this age range at \$566 per week.

2.2.2 Wealth distribution and life cycle stages

The distribution of wealth over the life cycle reflects the common pattern of wealth being gradually accumulated throughout the working lives of household members and then being utilised during retirement (Figure 4). The life cycle group with the highest mean equivalised net worth (\$651,100) was couple only, with the reference person aged 55 to 64. Many of these people are nearing the end of their time in the labour force or have recently retired, that is, they are at the end of the main wealth accumulation period.

People over 65 had less equivalised net worth on average (\$578,400 for couples and \$467,900 for lone persons) than those in middle age, at least partly reflecting a run-down of assets to support consumption in retirement. These older cohorts may also have had less opportunity for capital accumulation in earlier decades, for example, because women had, on average, lower participation rates in the paid workforce at that time, and therefore had lower balances in superannuation or other retirement assets in later years.

Figure 4: Mean equivalised net worth, 2005-06



Lone persons aged under 35 had the lowest mean equivalised net worth, at \$114,900. The equivalised net worth of couple only households in the same age group was 40% higher, at \$159,000. The mean age of persons in both household types was 28, indicating that they had had the same amount of time on average to accumulate wealth. However, the lone person households under 35 years were much less likely to be home owners (32% in 2005-06) than were couple only households of the same age (49%) and therefore less likely to have shared in rising equity in a dwelling.

Lone parent households with children had a mean equivalised net worth of \$123,500, compared to \$294,800 for couple households with dependent children only, suggesting that child raising responsibilities for lone parents had significantly impacted on their income earning and wealth generation capacity through their work force participation, while a much lower home ownership rate for lone parent households may reflect family separation as well as less opportunity to enter the home ownership market. Differences in relative age did not contribute significantly to this substantial difference in net worth, since the average age of parent was 39 years for the lone parent households and 41 years for couple families.

2.2.3 Households in the lowest quintile for income or wealth

Table 2 highlights significant differences in selected household characteristics for people in the lowest quintile of adjusted disposable income or the lowest equivalised net worth quintile. On average, the household reference person was 12 years older in the bottom income quintile compared to the bottom wealth quintile.

Table 2: Comparison of household in lowest adjusted disposable income and lowest equivalised net worth quintiles, 2005-06

		Lowest adjusted disposable income quintile	Lowest equivalised net worth quintile	<i>All Households</i>
Mean adjusted disposable income	\$	299	482	699
Mean equivalised net worth	\$ '000	146.8	20.4	325.8
Mean age of household reference person	no.	52	40	49
Proportion of households with characteristics				
Tenure and landlord type				
Owner without a mortgage	%	30.5	0.8*	34.3
Owner with a mortgage	%	21.1	4.9	35.0
State/territory housing authority renters	%	14.0	19.5	4.7
Private landlord renters	%	29.0	65.6	22.0
Main Source of Household Income				
Wages and salaries	%	19.0	52.8	59.4
Government pensions and allowances	%	67.3	40.9	26.1
Average number in household				
Total persons	no.	2.37	2.38	2.51
Dependent children	no.	0.74	0.68	0.63
Employed persons	no.	0.49	0.98	1.26

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

Compared to households the bottom wealth quintile, households in the bottom income quintile had approximately half the number of employed persons, on average, and a much higher proportion of households with government pensions and allowances as their main source of household income. Home ownership rates, were also significantly different between households in the lowest income and wealth quintiles, with more than half of lowest income households owning their own home compared to only 5% of lowest wealth households.

2.3 Towards better measures for identifying Australians at risk of economic hardship

Sections 2.2 showed that income and wealth have different distributions, with individuals often at different points in the distributions. To use only one of these dimensions to identify households at risk of economic hardship leads to a partial view of their economic circumstances.

We now discuss two measures that combine income and wealth to operationalise the concept of low consumption possibilities. The results obtained are compared with the traditional measures using income alone.

2.3.1 Measures of consumption possibilities

The ABS has selected two new measures to help illustrate the low consumption possibilities framework and to demonstrate results that can be obtained from their use.

The first measure, **low economic resources**, is a simple measure which identifies households that are simultaneously in the bottom 40% of household incomes and the bottom 40% of household wealth. Unless both criteria apply, a household is excluded from the population of interest. The measure separates households expected to experience low consumption possibilities from those which don't i.e. it is a dichotomous variable based on thresholds to determine low income and low wealth. There is no differentiation in scale among those households expected to experience low consumption possibilities nor among those which don't.

The ABS has previously used a low economic resources measure in some publications e.g. ABS 2007b, calculated using low wealth but using equivalised disposable household income rather than income adjusted for imputed rent.

The second measure, equivalised **wealth adjusted income**, is based on a household's combined income and annuitised wealth. A household's wealth is annuitised and the resulting annuity is added to household income to derive wealth adjusted income. Households with low wealth adjusted income are considered to have low consumption possibilities. The measure is a continuous variable, the distribution of which can be analysed for the whole population, or used with a threshold to define households with low consumption possibilities.

This approach has been used in a number of studies e.g. Weisbrod and Hansen 1968, Wolff and Zacharias 2003. In applying the approach, a number of assumptions are required.

The methodologies and assumptions underpinning these measures, and some further results, will be published in the ABS Research Paper *Development of measures of economic hardship for Australian households*, accompanying the release of the *Low consumption possibilities framework*, later in 2010. The analysis in that work utilises the 2003-04 HES dataset, because of its richness with expenditure and financial stress variables as well as income and wealth. The range of income measures for 2003-04 is also extended through the fiscal incidence study to include the effect of government social transfers in kind and indirect taxes.

Although the low economic resources and low wealth adjusted income measures are estimated differently, analysis using 2003-04 HES data has shown that they give very similar results for persons identified as having low consumption possibilities. For this paper, we will focus on use of the low economic resource measure given its simplicity, using SIH 2005-06 data which contains information about the income and wealth of Australian households in private dwellings.

2.3.2 Low economic resources measure

Defining the low economic resources measure

The low economic resources measure is based on coincident low income and low wealth (in the bottom 40% in both distributions). Table 3 shows the degree of overlap between the income and wealth quintiles by cross tabulating the percentage of persons in each.

Table 3: Comparison of adjusted disposable income and equivalised net worth quintiles, 2005-06

Equivalised net worth quintiles		Adjusted disposable income quintiles					All persons
		Lowest	Second	Third	Fourth	Highest	
Lowest	%	8.6	4.9	3.1	2.2	1.1	20.0
Second	%	4.7	4.8	4.6	3.5	2.3	20.0
Third	%	3.2	4.1	5.3	4.9	2.6	20.0
Fourth	%	2.3	4.2	3.8	5.3	4.4	20.0
Highest	%	1.2	2.0	3.1	4.1	9.6	20.0
All persons	%	20.0	20.0	20.0	20.0	20.0	100.0

Less than half the people in the lowest adjusted disposable income quintile were also in the lowest equivalised net worth quintile. Further, one third of people in the lowest income quintile had net worth levels above the cut off for the third quintile, that is \$196,400.

The low economic resources measure used in this paper is for persons who are in the intersection of the lowest two quintiles of income and wealth (the grey shaded area in table 3), representing 23% of the population, or 4.6 million people in 2005-06.

The low economic resources measure excludes some of the false positives identified when using income alone to identify households at risk of experiencing economic hardship. Low economic resource households exclude households with low income, but moderate or high wealth. In 2005-06, there were 1.3 million households that were in the lowest or second lowest income quintile but were in the third or higher wealth quintiles. These mainly comprised older people who had built up substantial wealth in their own home (96% were home owners, and the mean age of the household reference person was 62 years).

Figure 5: Mean equivalised net worth, by lowest quintiles for income or wealth, and low economic resources, 2005-06

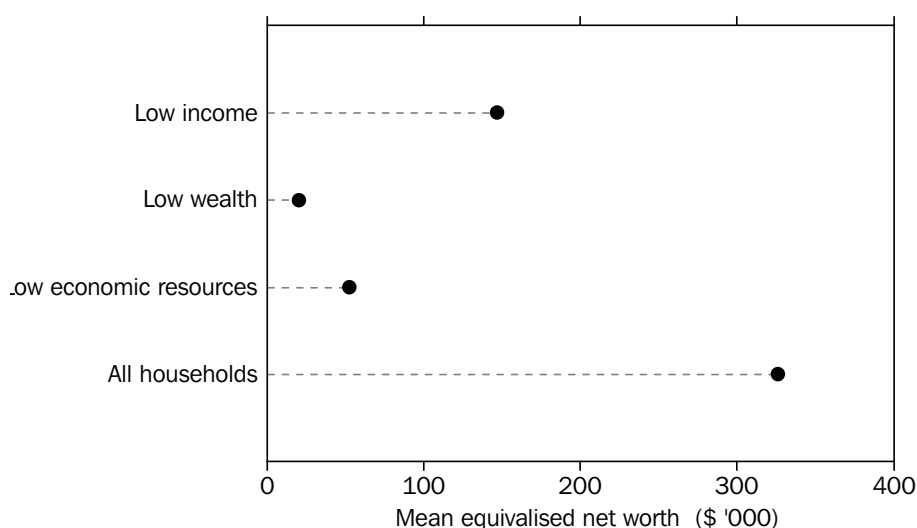


Figure 5 shows that persons identified by the low economic resources measure have considerably less equivalised net worth (\$52,600), about one third on average, than those in the lowest income quintile (\$146,800). Similarly, people with low economic resources also have lower home ownership rates, with fewer than 10% of low economic resource households owning their home outright, compared to 30% of those in the lowest income quintile.

Table 4 shows that younger households (lone person under 35 or couple only households with reference person aged under 35) are nearly twice as likely to be represented in the low economic resources measure, when compared to the lowest income quintile. This is consistent with many younger households having relatively low wealth and relatively low to moderate incomes. Conversely, older households may have accumulated relatively high levels of net worth over their lifetimes, but have relatively low incomes in their retirement. Older households (lone person aged 65+ and couple only households with reference person aged 65 and over) were less likely to be represented in the low economic resources measure, compared to the lowest income quintile.

The foregoing analysis shows that the low economic resource measure provides considerably better identification of households with low consumption possibilities, or those most at risk of experiencing economic hardship, than measures using income alone.

Table 4: Lowest adjusted disposable income quintile, lowest equivalised net worth quintile and low economic resource households, as a proportion of households in each life cycle group, 2005-06

		Lowest adjusted disposable income quintile	Lowest equivalised net worth quintile	Low economic resources	All households
Lone person aged under 35	%	17.9	49.4	31.0	4.7
Couple only, reference person aged under 35	%	6.1	33.5	11.2	5.3
Couple with dependent children only	%	17.4	13.8	23.3	22.2
Lone parent with dependent and non-dependent children only	%	42.8	52.8	59.2	6.8
Couple with dependent and non-dependent children only	%	14.7	13.0	16.5	3.3
Couple with non-dependent children only	%	8.6	5.9	7.3	5.7
Couple only, reference person aged 55 to 64	%	14.8	5.5	7.7	6.4
Couple only, reference person aged 65+	%	28.7	5.6	12.5	8.6
Lone person aged 65+	%	34.8	16.1	22.2	9.4
Other	%	20.5	26.1	21.1	27.7
All households (a)	%	21.2	21.0	21.7	100.0

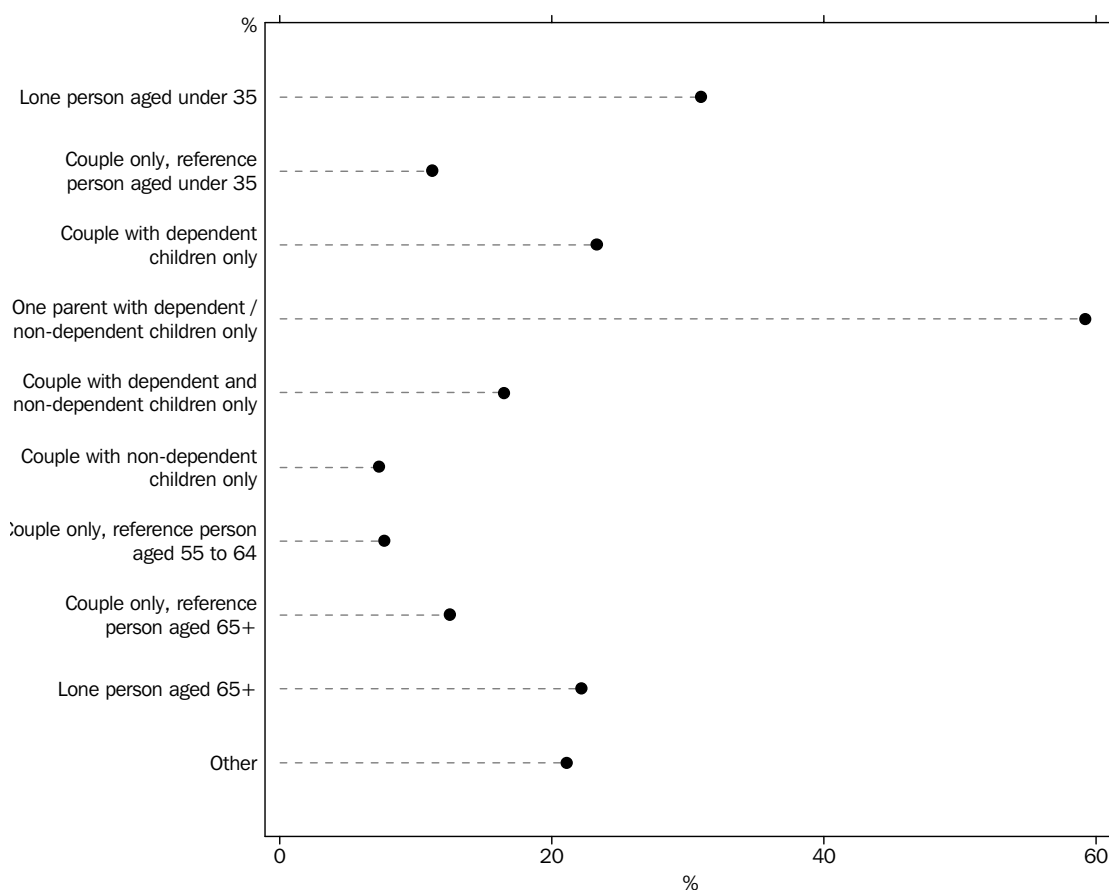
(a) Quintile boundaries are calculated with respect to the relevant number of persons, therefore the proportion of households in quintiles do not necessarily equal 20%.

Characteristics of low economic resource households

By definition, low economic resource households have access to relatively low levels of economic resources to support their consumption requirements. Average adjusted disposable incomes for this group were just over half those for the total population at \$367 per week. Average equivalised net worth levels for low economic resource households (\$52,000) were only 16% of the average level of net worth for the whole population (\$325,800).

Life cycle stage and household composition are important explanatory characteristics for the level of economic resources available to a household. While 22% of households overall were classified as low economic resource households, the proportion was considerably higher for one parent family households and certain lone person households (Figure 6).

Figure 6: Low economic resource households as a proportion of households in each life cycle group, 2005-06



In 2005-06, nearly 60% of one parent family households had low economic resources. This was 8 times the rate for the population as a whole and about 3 times the rate for couple households with children. Using the low economic resources measure, there was also a much higher representation of the following life cycle groups than in the population as a whole:

- lone person households under 35 were more than 6 times as likely to be represented;
- couple only households under 35 were more than twice as likely;
- lone persons aged over 65 were more than twice as likely to be represented.

Life cycle groups with the lowest proportions of households identified using the low economic resources measure were couples with non dependent children only (7%) and older couples, with a reference person aged 55-64 years (8%).

Certain types of households therefore predominated among low economic resource households. One in five households identified as having low economic resources were either younger (reference person aged under 35) or older lone person households (reference person aged over 64).

Table 5: Low economic resource households,
by selected characteristics, 2005-06

		Low economic resources	All households
Mean adjusted disposable income	\$	367	699
Mean equivalised net worth	\$'000	52.6	325.8
Tenure and landlord type			
Owner without a mortgage	%	7.7	34.3
Owner with a mortgage	%	21.8	35.0
Private renter	%	43.5	22.0
Public renter	%	18.7	4.7
Other	%	8.3	4.0
Total	%	100.0	100.0
Main source of household income			
Zero or negative income	%	1.4	0.5
Wages and salaries	%	38.7	59.4
Own unincorporated business income	%	4.3	6.0
Government pensions and allowances	%	53.3	26.1
Other income	%	2.3	7.9
Total	%	100.0	100.0
All households	%	21.7	100.0

As shown in table 5, other types of households that predominated among low economic resource households were those whose main source of household income was government pensions and allowances (53%) and renters (private 44% and public 19%).

In summary, persons in households with low economic resources (or with low consumption possibilities) have characteristics typically considered to be at greater risk of economic hardship than the population as a whole. However, not all households identified using the low economic resource measure will be actually experiencing economic hardship. Likewise some households excluded from the measure may be experiencing economic hardship. This is because people in households with similar economic circumstances can have quite different consumption requirements depending on their life cycle stage, individual circumstances and life style choices. These broader elements, reflected in the outer framework described in Section 1.1, are not operationalised in the low economic resource measure used in this paper.

Section 3: Conclusion

The purpose of this paper was to illustrate some key aspects of the conceptual framework, and particularly to demonstrate how measures of people's low consumption possibilities can be applied that reflect both a household's income and its wealth. It seems quite clear that people in the low economic resource household group generally had lower consumption possibilities than people in the low income group, particularly through the exclusion of people in households with higher levels of net worth.

Although not all elements of the conceptual framework can be operationalised, the analysis indicates that better measures of people's low consumption possibilities can be obtained using measures that combine income and wealth. However, these analyses have significant data requirements.

In Australia, the richest dataset for these analyses is the HES, with income, wealth, expenditure and financial stress data all available. The range of income measures is also extended through the fiscal incidence study to include the effect of government social transfers in kind and indirect taxes. The ABS household survey program currently provides for the SIH to be conducted biennially, with the HES to be conducted every six years on an integrated basis with the SIH (next release will be in respect of 2009-10). Wealth data are collected from the SIH population in each combined cycle with HES, but have also been collected in 2005-06 (as used in this paper) and will be again in 2011-12.

Household income and wealth data are also collected together in selected cycles from the Household Income and Labour Dynamics Survey conducted by the Melbourne Institute of Applied Economic and Social Research. The longitudinal nature of the dataset offers opportunities for examining the persistence and changing nature of economic hardship over time.

Renewed international focus has been given to the importance of analyses that consider the joint distributions of income, consumption and wealth eg. the Stiglitz Commission Report. The OECD has recently agreed to progress work on an integrated framework for income, wealth and consumption statistics, including the provision of practical guidance on how income, expenditure and wealth can be collected together in household surveys and the development of an integrated and comprehensive framework for these statistics. The ABS has been involved in early dialogue on this project and will actively participate in these developments.

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Notes

¹ The equivalence factor derived using the 'modified OECD' equivalence scale allocates 1 point for the first adult in the household, 0.5 points for each additional person who is 15 years or older, and 0.3 points for each child under the age of 15. Equivalised household income is derived by dividing household income by a factor equal to the sum of the equivalence points allocated to household members.