

Stream 2: Economic and Social Research on Families and Communities

14. Understanding and improving data quality relating to low income households

Motivation

Income is one of the most frequently used variables in social analysis, with survey data sources, and, in particular, ABS household surveys, being used as a major source of information for this. Income distribution, and income poverty analysis in particular, focus on the pattern and level of income going to low income households. To the extent that these reported incomes do not provide an accurate picture of the provision of income support, or the resources available to households, analyses based on them will be flawed.

The ABS household surveys show:

- a proportion of Australian households recording zero or negative incomes (for example 1.2% of households in the HES);
- other households with very low incomes;
- many households, apparently in receipt of income support, have incomes less than would be expected given rates of payment;
- apparent under-reporting of rates of receipt of income support; and
- implausibly higher marginal propensities to consume.

Analysis of surveys such as HES suggest that there is a significant discrepancy between reported incomes and expenditure, and that the outcomes, defined in terms of their consumption levels and patterns, and the incidence of 'financial stress' of many of these households with low incomes are not easily reconciled with their income level.

Where data collections, such as the SIHC collect information on both current and previous full year income a diverse pattern of discordance exists.

If there is confusion between households with genuinely low incomes and those with apparently low incomes due to reporting, or as a result of the conceptual basis of the income variable being used (for example the treatment of business activities in economic concepts of income) social policy risks being mis-directed, and the risk of non-identification of households without adequate means, increases.

Where data does not accurately reflect the circumstances of households there is a risk that the lack of credibility of results will serve to reduce the overall credibility of social policy research.

Objective

The project has three objectives:

To better understand the factors behind the apparently low incomes recorded by many Australian households, in particular, in major ABS data collections, and the implications of these for income distribution and 'poverty' analysis.

To identify the extent to which these arise from the concepts of income used in these surveys which may result in the data being inappropriate for other analysis; and the degree to which it can be ascribed to inadequate reporting of incomes.

To provide advice on the magnitude of any problem which may exist; how the existence of such problems should be treated in income distribution and related poverty analysis, including any actions which should be taken by analysts to derive data appropriate for the purposes of their analysis; and consider methodologies which can be adopted to reduce the impact of any identified problems in future data collections.

Methodology

The research will consist of two components:

A literature review of the issues associated with both the definition of income, and in the collection of data on income, focussing on the problems of low income, and the relevance of different definitions of income for social policy; and

A review of data collections, in particular major ABS household collections to identify the extent of possible under-reporting, the characteristics of such households, and the options available to researchers for dealing with this in existing data collections.

The data review will be achieved in the following ways:

- Identify the extent to which low incomes are generated from business losses, and the number of households which simply don't report any income
- Compare estimates by household characteristics across different surveys, and other data sources, and over time – eg SIHC, HES, Housing Surveys, Census – and possibly ATO data
- Where available undertake comparisons of annual and weekly income
- Compare estimates of income and expenditure to identify the extent to which income seems insufficient to explain the level of consumption – and describe the characteristics of these households
- Compare the levels of income support payments reported, and their apparent average rate with the rates apparent in administrative sources – and describe the difference on the basis of payment type aggregates
- Using imputation of income support payments, benchmark households and describe the differences in terms of household characteristics

Once these tasks have been completed it may be appropriate to develop some form of field assessment. However until the nature of the problem is clearer it is not possible to describe how such field testing might be designed. It is suggested that field testing be the subject of a follow-on project.

What are the anticipated research outcomes?

As noted under Motivation it is anticipated that the research will provide information which will assist in:

- understanding the magnitude of the problem;
- developing approaches in analysis to minimise the adverse impact of these; and
- advice which can be used in the design of data collection to improve the quality of income data.

These three elements will enable the quality of income based social policy research to be improved. The focus of the research is to provide outputs that are of practical application, specifically:

- quantification of any problems in a form which can be used for qualifying results;
- suggestions on how existing data can be best managed in such research; and
- options for future data collections which are feasible for survey based data collection and will improve the data available for social analysis, without reducing the value of the data from other theoretical frameworks.

Team Membership

The Melbourne Institute contact for this project will be Associate Professor David Johnson.

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