

SARC *briefs*



The price of poverty: The cost of living for low income earners

The research

This is a summary of Anglicare's research into the experiences of low income Tasmanians who are faced with rising costs for essential goods and services. It outlines the findings of interviews with 66 people from around Tasmania.

What are essential goods and services?

These are the goods and services which meet common needs and are linked to the health and safety of the community, like the need for fuel (electricity and gas), sewage disposal, and food and water. Goods and services are also considered essential if people continue to purchase them even when the price rises to the point where they struggle to afford the service. They may do this because they need it or because there are few or no substitutes for that good or service.

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'Electricity is very expensive - I'm fearful of an expensive bill. No, no, it's not a warm house. It gets pretty cold.'

Mother of six young children, West Coast,
renting privately

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I have a phone, a mobile, pre-paid. It was just another cost I couldn't justify - putting the landline on. I put \$20 [on the mobile] when I get paid each fortnight and once that runs out I just wait to next pay. I do a lot of texting, I'd like the landline on but can't afford it at the moment.

Part time worker, single woman with a mortgage, West Coast

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Who did we talk to?

The 66 people we talked to were a broad cross-section of the community.

They were 21 men and 45 women, ranging in age from 18 to 82. Some of the participants were Aboriginal or were from refugee backgrounds.

They lived all around Tasmania

- including southern Tasmania (the Greater Hobart area, the Tasman Peninsula, the Huon and the Channel);
- north-western Tasmania (Burnie, Devonport, Circular Head, Rosebery and Zeehan); and
- north and north-eastern Tasmania (Launceston, the Tamar Valley and the East Coast).

They lived in a range of family types and household types

Most participants were sole parents living with their children but many lived alone or with family, such as their partners, children and extended family. Some were young adults living in shared housing with other adults.

They had a range of experiences with housing

Participants lived in rental houses, public housing or social housing, or they owned or were buying their own homes. Some of the participants had recently been homeless or were homeless when we talked to them.

They had one thing in common. They all lived on low fixed incomes.

The majority were dependent on income support payments such as Parenting Payment Single, Newstart Allowance, the Disability Support Pension, the Age Pension and Youth Allowance. We also talked to some low wage earners, and women who were the partners of low wage earners.

What did we ask them?

We asked them about their experiences of purchasing electricity, shelter, food, and telecommunications.

We asked how people prioritised their budgets. How did they pay their bills? Where did they shop, and why? How did they shop? Could they afford essential goods and services? Were they satisfied with the quality and quantity of goods and services they bought? We also asked how they managed, and how they would advise other people to manage.

Does 'affordable' mean 'cheap'?

There are lots of debates about what 'affordable' means. In this research we argue that it has three aspects. It means being able to buy an essential good or service that is of an adequate standard, being able to buy enough of that good or service to meet your reasonable needs for health and dignity, and being able to pay the price without suffering hardship.

What did we learn?

This research found that there are a number of ways that the research participants are subject to a 'poverty penalty'.

What is the 'poverty penalty'?

Sometimes people with little money pay relatively more for essential goods or services. It can happen when:

- The goods sold to poorer people are of poorer quality;
- When poor people have to pay a higher price for a product;
- When poor people can't get access to a product;
- When poor people stop buying a product because they can't afford it; or
- When buying a product causes a 'catastrophic spending burden'.

Sometimes this is called 'the price of poverty'.

Some of the costs are direct – people pay more for the products which are available to them. For example, some people have to pay more for food because they had to shop at small local food outlets.

Some of the costs are indirect – people have to pay more for products because of other factors. For example, some people have to purchase more electricity because they are living in poor quality housing.

What puts you at risk of paying the 'poverty penalty'?

People are at risk of encountering the 'poverty penalty' if they:

- Live on a low income (because that makes them vulnerable to price increases and unexpected or urgent purchases); or
- Live in a location which is poorly serviced by transport and other infrastructure.

“ **3**

Sometimes I wouldn't even have power for three days. [I pay by] PAYG, and sometimes the credit run out ... and sometimes I would be without any money at all, it was pretty hard in winter ... you wouldn't have hot water or cooking, I just wouldn't have a shower, it was too cold. I spend a lot [on electricity], like more than \$100 a fortnight.

24 year old man, job seeker living on Newstart Allowance, Hobart

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***Food has to come
behind rent first,
Hydro and phone,
then my bus ticket
and medication ... If
I have to get a taxi to
get home from the
supermarket I only do
the shopping once a
week. If I get the bus
home I can't buy as
much because I can***

continued on page 5...

The participants in this research experience great difficulty in affording essential goods such as food and essential services like housing, electricity and telephones. The research suggests that the affordability of essential goods and services is approaching crisis point. Research participants described electricity costs as having such a detrimental effect on household budgets that they were *'catastrophic'*, that is, the impact of these bills is long term and affects their ability to pay for other essential goods and services. Housing costs too, in their ongoing demands on household budgets, are having a significant and detrimental effect on the research participants' ability to afford other essential goods.

What is a 'catastrophic spending burden'?

This is when it is necessary to buy a good or a service, but the price is so high that the household must do something extreme to pay for it. (For example reduce the amount they spend on other essentials for an extended period of time.)

Research participants described rationing essential goods and services. This is due to their low incomes, which mean that they cannot afford as much of these things as they need. Fruit and vegetables in particular are rationed, and electricity use kept below the level needed to keep their homes warm.

Participants also described experiences of disconnection – from telephones and electricity – due to their inability to afford these services. They described living for periods without lights, heating, cooking or hot water. These experiences are relatively common.

The circumstances of their own lives also limit their choices. These circumstances include their need to manage illness, their responsibilities for children or disabled relatives, or their inability to physically get to certain shops or shopping centres.

The research also exposed the cost in time and energy for low income people trying to live frugally. Many live in rural or regional areas or in the rapidly expanding developments on city fringes. Poor infrastructure, including limited or no access to public transport, means that their ability to reduce costs by taking advantage of price discounts, bulk purchasing and shopping around is extremely limited. People who have responsibility for supporting children or people with disabilities, or people who themselves are ill, frail or have disabilities, do not always have the time or energy to shop around. Many of these people described careful considerations of cost (money, time, energy) and benefit (price savings) which mean that paying more for a product often seems the best deal for them.

from page 4...

***only carry so much
from the bus stop
and then I have to
go twice as often ...
I tried to get a letter
from the doctor to get
the taxi voucher but I
didn't get it because
I'm not disabled
enough.***

67 year old woman, living in a private rental property on the northern fringe of Hobart. Dependent on the Age Pension and Commonwealth Rent Assistance.

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The people we talked to have developed a range of coping strategies to deal with these problems. They described how they order their budgets to make sure priorities were met first. Because of the importance given to staying housed they almost all pay housing costs first. They also place a high premium on keeping the electricity connected, meaning that it is often the second priority in their budgets. Many people then give paying for their telephone and paying off debts the next priority. Often food is given a low priority in budgets – it is purchased with the money left over after all other significant deductions have been made.

Because of the difficulty these budget priorities cause when it comes to buying food, some participants reported that they adopt strategies such as limiting their purchases of fruit and vegetables, rationing more expensive foods such as fruit, substituting cheaper, less nutritious foods, and getting food from emergency relief services.

This research found that many of the participants are struggling to pay for essential goods and services. This raises serious concerns about the impact of increasing cost of living pressures on low income households.

What is clear from this research is that when the market provides essential goods and services (whether through the open market or through government-owned businesses) it does not always act in the interest of low income consumers. Rather than enjoying the benefits of improved access and lower prices traditionally associated with free markets, people on low incomes are at times treated as less valuable customers and are relegated to residual markets (such as the edges of the telecommunications industry), excluded from important markets (such as the market to rent housing) or the market fails them (it does not to deliver to them the products or information they need).

The findings of this research are not unusual. They are consistent with other research which has explored the experiences of low income Australians. However, this research provides new insights into how the delivery of essential goods and services is failing low income Australians and how these goods and services are becoming out of reach for some people in our community.

6



The local food shop is very expensive. The food is out of date and there's not much choice. I can't afford the supermarket because of the cost of transport. You have to get the bus there and taxi back and that costs \$12 or \$14.

51 year old woman, homeless and 'couch surfing', Clarence Plains



Recommendations

Many of the problems outlined in this research relate to the way that markets in the business of providing essential goods and services have evolved to exclude or marginalise unprofitable customers. The capacity of governments to advance broader interests is required to address these problems – through the collective responses we have established to address disadvantage, such as the publicly funded income support system and publicly funded services, through the measures we have to ensure that government businesses meet social objectives, and, if necessary, through intervention in the market. There are four ways the state and national governments can act to address cost of living pressures for disadvantaged groups in the general population. They are:

A framework for addressing cost of living pressures			
Ensuring adequate incomes	Ensuring access to essential goods	Ensuring access to essential services	Ensuring consumer protection

The key recommendations for change in Anglicare's report include:

Action to address income poverty

The main issue that many people in this research face is inadequate incomes. A significant problem with the Australian income support system is that most payments are not linked to basic living costs and many of them are not indexed to wages so they do not keep up with increases in cost of living. Action to address the low rate of income support payments is critical. The Tasmanian Government must urgently advocate for this with the Australian Government.

Recommendation: The Australian Government must ensure that all income support payment levels can provide an acceptable minimum standard of living for recipients and that they match increases in wages and living costs.

The Centrelink system is complex and can be very intimidating. People need assistance to make sure they are getting all the benefits they are entitled to and they may need support to appeal decisions if their applications are turned down. The Tasmanian Government should fund an 'income maximisation' trial, like those successfully run in the United Kingdom, where efforts are made to ensure disadvantaged people are receiving the maximum income available to them.

Recommendation: The Tasmanian Government should fund an income maximisation trial.

Action to ensure access to essential goods

The research found that participants are having difficulty affording the food they need for a nutritious diet. A range of work needs to be done to ensure that people on low incomes can afford and get access to nutritious food. Part of this work is about promoting sustainable local food supplies. The Tasmanian Social Inclusion Commissioner has formed a Food Security Council to develop a food security strategy for the state. It is important that the Tasmanian Government commit to implementing the strategy when it is complete.

Recommendation: The Tasmanian Government must commit the funding to implement the Tasmanian Food Security Strategy.

Action to address access to essential services

Government services: Properly funded public services can provide an important supplement to individual income, because they allow society to spread among all taxpayers the cost of providing services that many individuals could not afford to purchase privately on an individual basis.

Some essential services, such as public housing, are provided by government. Participants in this research identified that the lack of affordable housing available was a critical problem underlying a range of budgetary pressures for them. Research has found public housing to be the most efficient and cost-effective way for the government to provide housing assistance.

Recommendation: That the Australian and Tasmanian Governments must fund the public housing system as a core government service, with enough funding to allow it to charge affordable rents, increase the supply of houses, offer security of tenure and improve support services for tenants.

Government businesses: This research highlights the need to improve the access and/or affordability of two critically important essential services which are now delivered via government-owned businesses: publicly funded transport services and electricity services.

Electricity: The bulk of the participants in this research reported grave difficulties with affording the amount of electricity they needed to keep their homes at a satisfactory level of warmth. For many, electricity costs are having 'catastrophic' effects on their budgets requiring extreme measures (such as approaching charities for relief, going into debt and rationing food) and reducing the amount of money these households have for essentials for an extended period of time. These customers are inadequately protected by the current electricity concession. We

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My house isn't insulated. Heating is the biggest cost for my bill.

65-year-old woman, living on Age Pension, private rental property, Hobart

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Social Action and Research Centre (SARC)

Anglicare's SARC team works with low income Tasmanians to identify the issues that affect their lives. The Centre pursues policy change on these issues at a State and Federal level. www.anglicare-tas.org.au

need action to ensure that all Tasmanians have access to adequate amounts of electricity at a price that does not impose hardship. We need a low cost social tariff for electricity backed by a fully funded community service agreement to protect both the community and the business interests of current and future electricity providers.

Recommendation: That the Tasmanian Government investigate options to introduce a 'social tariff' and appropriate concessions structure for eligible low income and vulnerable electricity consumers.

Transport: This research raised in particular the issue of transport, and especially the connection between poor access to transport and poor access to nutritious food. Low income Tasmanians urgently need access to publicly subsidised transport to ensure they are able to get to appropriate food outlets easily and transport their shopping home.

Recommendation: That the Tasmanian Government invest further in publicly subsidised transport services.

Consumer protection

This research identifies a number of ways in which improved regulation and information dissemination could act to protect low income consumers.

The research found that information about essential services can be complicated and difficult to understand, and that consumers depend on word of mouth for product information, some of which is not correct.

In the current market environment, one of the most important ways that governments can act to protect the access of low income and disadvantaged customers to essential services is by ensuring the corporations that deliver essential services have clearly defined social obligations and adequately funded community service obligations.

For more information

The full report, *The price of poverty: The cost of living for low income earners* by Jo Flanagan and Kathleen Flanagan, is published by the Social Action and Research Centre at Anglicare Tasmania.

It is available by calling 6213 3555

Email: SARC@anglicare-tas.org.au

It can be downloaded at

www.anglicare-tas.org.au



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