Poverty redefined as low consumption and low wealth, not just low income: psychological consequences in Australia and Germany

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Abstract

This paper deals with two connected issues – how best to measure financial poverty and the psychological or subjective consequences of poverty. Measures of poverty in Australia, Germany and other Western countries are usually based only on low income. But this is conceptually incorrect; these measures lack validity. To be poor is to have a low material standard of living – involuntarily. So measures of poverty should also take account of household consumption and wealth. If a household has an adequate current level of consumption, it should not be classified as poor right now, even if its income is low. Similarly, if it has substantial wealth (net worth), it is arguable that it should not be viewed as poor because it could draw down wealth to boost current consumption.

Using revised measures, we assess the consequences of financial poverty for life satisfaction, financial satisfaction, the chances of finding a partner, satisfaction with one's partner, physical health and mental health. In recent years, especially in research on life satisfaction by economists, it has been reported that in Western countries the effects of income generally and poverty in particular are minor (although statistically significant) and are mainly due to the low social status associated with low income. In this paper, using improved measures, we find that poverty has substantial negative psychological consequences. However, the incidence of poverty, using the revised measures, is considerably lower than with the standard income-based measures.

Data are drawn from Australian (HILDA) and German (SOEP) national socio-economic panel surveys.