

# POORLY UNDERSTOOD

## THE STATE OF POVERTY IN NEW ZEALAND

BRYCE WILKINSON  
JENESA JERAM



THE  
NEW ZEALAND  
INITIATIVE



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**FEBRUARY 2016**

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

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Bryce was a member of the government's Regulatory Responsibility Taskforce, the 2025 Taskforce, and the ACC Stocktake Group. He holds a PhD in Economics from the University of Canterbury and was a Harkness Fellow at Harvard University.



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# FOREWORD

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It was a pleasure to review this report as few other areas of public policy involve such a contest of emotion, strong prior views and partial insights as the state and consequences of poverty in Aotearoa New Zealand.

In my experience, all good public policy processes start with clear, precise problem definition, including the nature and magnitude of the issues one is attempting to address. The strength of this report is the questions asked of existing data and material: what is poverty in a New Zealand context; which individuals and groups are in poverty and

why; and what interventions have been tried to address the negative impacts of poverty to date?

It is also to the credit of the authors, that this tūranga paparahi is being presented for public review and comment before any possible solutions are fully explored.

The challenge for policy makers and researchers is to build on the insights, to suggest solutions based on talking to people on very low incomes and explore the diversity of incentives, capacity and information that challenge centralised solutions.

## John Dickson

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# EXECUTIVE SUMMARY

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This report is about the state of what is often called poverty in New Zealand.

Headlines that proclaim that a quarter of a million children or more live in poverty in New Zealand give an exaggerated and misleading impression. For a start, they cherry pick the top end of estimates by the Ministry of Social Development (MSD).

For 2014, MSD's estimates ranged from 150,000 (14% of all children) to 305,000 (29% of all children). These figures show the number of children in households whose disposable incomes fell below a range of thresholds. MSD measures disposable incomes both before housing costs (BHC) and after housing costs (AHC). Thresholds are commonly set at 50% or 60% of median household income, adjusted for household size and composition. They are set either at the value of household median income in the current year, or its value in current year dollars of some earlier base year median income. There is no international agreement as to which income measure or threshold is best.

To provide some perspective on such estimates, more than 20% and perhaps even 25% of children in New Zealand live in households with no adult in full-time employment. At 31 March 2015, 187,000 children (17% of all children) were in beneficiary families. MSD reports that between 2009 and 2012, of the 310,000–333,000 people of working age receiving a main benefit, only around 17% (one in six) declared they had other income. The proportions of the population below a given threshold can rise and fall materially with the unemployment rate.

Even so, full-time work at a low wage rate by one adult does not suffice to lift all households with dependents above all such income thresholds. Around 2 out of 5 children are in income-poor households in which at least one adult is in full-time work or is self-employed.

Clearly better access to jobs that pay higher rather than lower wage rates would help. As The New Zealand Initiative has repeatedly pointed out, skill-attainment through education, and economic growth through productivity growth are keys to lifting wage rates. In 1936 the Arbitration Court determined a basic weekly wage of £3 16s was sufficient for an adult male to maintain himself, his wife, and three children in a fair and reasonable standard of comfort. This converts to \$9.9 per hour in mid-2012 dollars which represents 73% of the mid-2012 minimum wage of \$13.5 and 54% of the proposed \$18.4 per hour 'living wage'. This calculation illustrates how productivity growth can raise real wage rates and, apparently, living standard expectations.

It also raises a question as to the deeper causes of child hunger today. The complexity of the issue is illustrated by a Ministry of Health finding that those living in the most deprived areas in New Zealand are four times more likely to be extremely obese as those living in the least deprived areas. It is somewhat incongruous to use the same word "poverty" to refer to situations of hunger and obesity.

Policies that have unnecessarily and undesirably raised housing costs are another long-standing concern of The New Zealand Initiative. High housing costs hit low income working age households hardest. Table 1 shows that the income poverty rate on a 60% constant value threshold measure *fell* from 12% in 1982 to 8% in 2014 on a BHC measure but rose from 8% to 13% on an AHC basis. Concerns about overcrowding and inadequate housing and poverty overlap with the concern about unduly high housing costs in New Zealand.

A further concern with headlines that focus attention on upper-end income estimates of poverty is that they risk distracting attention from the more complex issue of material hardship.

Households with relatively low disposable incomes are not necessarily experiencing hardship, and vice versa. Student and retiree households can be income poor but resource rich in different ways. Some other households can be temporarily out of work, or temporarily in work. Overall, around 55–65% of income-poor households are not materially deprived on a reasonable measure. More than half of the 29% of children living in relatively low income households on the 60% AHC measure were not experiencing material hardship on a reasonable measure. Even so, households with chronically low disposable incomes that are headed by adults of working age are much more likely to be experiencing material hardship than other households.

Defining poverty as relatively low current income also suffers from the difficulty that whereas higher income from economic growth can reduce material hardship it might not increase relative income. So which issue is the more important?

For these and other reasons, increasing attention internationally is being given to indicators of the incidence of material hardship. Chapter 2 of this report cites comparative hardship (and income) measures produced by the Organisation for Economic Co-operation and Development (OECD), the European Union (EU), and the Ministry of Social Development. The relative income thresholds used in these reports are typically 50% or 60% of median household disposable income.

Based on the OECD and EU's member country relative income statistics for 2011, New Zealand had a lower incidence of elderly poverty than their overall country averages and a higher incidence of child poverty, for a similar total population incidence. Measured income mobility in New Zealand appears to be comparable to rates in other similar countries.

In 2014, based on MSD's relative deprivation or hardship tables:

- The proportion of all New Zealanders falling below a threshold for severe material hardship was 5%; for a less stringent threshold, it was 8%.

- The number of those aged 0–17 falling below a threshold for severe material hardship was 80,000 (8%); for a less stringent threshold, it was 145,000 (14%).

The incidence of material hardship is particularly high among sole parent households and Māori and Pacific households. These communities should be heavily involved in any official assessments of the nature of the problem, causes and remedies.

Benefit levels and conditions presumably reflect public opinion about the causes of hardship. The more than four-fold increase since 1970 in the proportion of the working age population on a benefit other than the unemployment benefit could be influencing public perceptions. One survey of public perceptions suggests that many might not be accepting the most exaggerated claims of the extent of child poverty and consider poor decisions to be a material reason why some people of working age are experiencing hardship.

The report also briefly traces from colonial times the evolution of private arrangements for preventing and alleviating poverty. These included insurance companies, friendly societies, and benevolent organisations. While vibrant and effective within their domains, the scope and capacity of these institutions was limited from a national perspective.

The state's role grew markedly towards the end of the nineteenth century, partly as a result of hardship from widespread recession and the pension needs of an ageing population. The Great Depression of the 1930s accelerated this trend.

The role for friendly societies was reduced but not eliminated by the state's activities. Today New Zealand has a very substantial non-profit sector supplying social services.

Subsequent reports from The New Zealand Initiative will address the issues of income inequality and welfare policy.

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# ONE

## INTRODUCTION

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Properly understood, “use of the term ‘poverty’ carries with it an implication and moral imperative that something should be done about it”.<sup>1</sup>

This report is about what is often called ‘poverty’ in New Zealand. While there is no poverty in New Zealand by Third World standards, there are real concerns about inadequate living conditions, particularly for a significant proportion of children.

How many people are experiencing relative hardship in New Zealand? What do we know about who they are and how they came to be in their grim situations? How do the statistics compare internationally? What non-government insurance and benevolent institutions evolved in New Zealand to help prevent and alleviate hardship before the advent of the welfare state? How has the development and presence of such institutions been affected by evolving government policies?

This report compiles answers to these questions provided by those working in the field. We have not undertaken new research.

The hundreds of pages of statistics on income inequality and hardship measures produced by the Ministry of Social Development (MSD) have been a core resource for this report. The tables and charts from this database highlighted here are only a tiny portion of the vast amount of other interesting and relevant information. Readers

wanting more information should refer directly to MSD’s excellent reports.

Chapter 2 reviews the concepts, definitions and measures of poverty. Poverty is an emotive term. We suggest it should not be used lightly in a New Zealand context when the same word means incomparably more desperate material hardship in Third World countries. Nevertheless, the statistics reviewed in Chapter 2 demonstrate that grim hardships exist in New Zealand to a significant degree, regardless of semantic niceties.

Chapter 3 identifies some of the many diverse factors that can help explain why so many people are experiencing hardship in New Zealand.

Chapter 4 traces the evolution of non-government arrangements to avert or alleviate hardship, with a particular focus on friendly societies till World War II.

Chapter 5 presents our conclusions.

This report does not make any policy recommendations. It does describe various current and past policies, but merely as a by-product of its descriptive task. Of course, some of the findings are suggestive, but we do not identify or evaluate policy options looking forward.

Nor does this report discuss the rich-poor divide or income inequality. These are important topics in their own right and The New Zealand Initiative will be producing reports on inequality and welfare policy in the future.

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1 David Piachaud, “Problems in the Definition and Measurement of Poverty,” *Journal of Social Policy* 16:2 (1987), 147–164, 161, quoted in Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014” (Wellington: Ministry of Social Development, 2015), 78.



## TWO

# POVERTY: CONCEPTS, DEFINITIONS AND MEASURES

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Disagreements over the definition of poverty run deep and are closely associated with disagreements over both the causes of and solutions to it. In practice all these issues of definition, measurement, cause and solution are bound up together and an understanding of poverty requires an appreciation of the interrelationships between them all.<sup>2</sup>

### 2.1 THE EVOCATIVE ASPECT OF POVERTY TERMINOLOGY

‘Poverty’ is an evocative word.

It evokes images of Third World destitution, under-nourished children, disease, dung hovels, helplessness and despair. For example, in 1995 the United Nations’ Copenhagen Declaration described poverty as:

... a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.<sup>3</sup>

Used in this context it is a call to compassionate action.

But using the word ‘poverty’ to refer to those who are relatively poor in a prosperous country means something different.

The relatively poor people in a prosperous country do not necessarily lack what in 1759 Adam Smith referred to as the “necessities of nature”. Writing in the context of the United Kingdom, he asserted at the time, extraordinarily from today’s perspective: “The wages of the meanest labourer can supply them. We can see that they afford him food and clothing, the comfort of a house and of a family”.<sup>4</sup> Clearly, he was not writing about times of economic collapse, war or famine.

But Smith also observed that to be relatively poor was to be lacking in things that were deemed necessary, in the context of that time and place, to be shameful to lack in the eyes of those who did not lack them, and humiliating to lack for those that did lack them and wished it were otherwise. Smith attributed these evoked emotions to human vanity: “We aspire to wealth, power and eminence, not for its material benefits, but for the status it confers”.<sup>5</sup> We want to look good in the eyes of others and we may feel embarrassed by the relative poverty of others. Smith’s proposition is a reminder that virtues such as compassion are not the only motivators of human action.

Of course, the self-denying monk in a monastery cell would likely not trigger the same emotions of compassion, vanity or envy. Emotional responses are context dependent.

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2 Peter Alcock, *Understanding Poverty* (London: Macmillan Alcock, 1993), 57, quoted in Bryan Perry, *Ibid.*, 79.

3 This definition is part of the Copenhagen Declaration that emerged from the UN’s World Summit for Social Development. See United Nations, “World Summit for Social Development Programme of Action” (Copenhagen: UN, 1995), Chapter 2.

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4 Adam Smith, *The Theory of Moral Sentiments* (1759), 114.

5 Nineteenth-century sociologist Thorsten Veblen coined the term “conspicuous consumption” to depict leisure class vanity. See, for example, Wikipedia, “Conspicuous Consumption,” Website.

Even so, it is somewhat incongruous to use the same word ‘poverty’ to refer to both a state of Third World hardship and the situation of being relatively poor in a prosperous country. The situations certainly differ greatly in degree and arguably in kind in some respects.

Nevertheless, advocates of policy action sometimes seek to conflate the concepts of poverty and of having a low relative income in a prosperous country. For example, Christopher Sarlo, economics professor at Nipissing University in North Bay, Canada, notes the tendency of those calling for greater redistribution of income to use a threshold for low relative income that captures a significant portion of the population and then attribute the wants of absolute poverty to that entire subset.<sup>6</sup> For a recent New Zealand example, see section 2.3 below.

## 2.2 DEFINING AND MEASURING POVERTY – CONCEPTS

It is common in poverty literature to distinguish between absolute and relative poverty.

Absolute poverty measures poverty in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter.

Relative poverty defines poverty in relation to the economic status of other members of the society: people are poor if they fall below prevailing standards of living in a given societal context.<sup>7</sup>

Absolute poverty is mostly associated with extreme Third World poverty based on minimal nutritional and other needs, constant through time, using the World Bank’s poverty threshold of US\$1 a day in

1996 prices. This threshold has since been updated to \$1.25 a day. In 2014, the World Bank described it as a threshold for “extreme poverty”.<sup>8</sup> The World Bank also monitors poverty levels based on a higher threshold of US\$2.50 a day.

Relative poverty most commonly refers to low incomes relative to the median income, or *relative income poverty*. Closely related measures are relative consumption or wealth.

It is commonly argued that the distinction between relative and absolute poverty is over-drawn – for example, even the threshold for the minimum calorie intake varies across countries according to climatic and other conditions. This is semantically true, but it does not follow that ‘poverty’ applied to people with a relatively low income in a high income country can be equated to people in a Third World country. In countries like New Zealand, ‘poverty’ is likely to be associated with inadequate piped water, flush toilets, and electricity; housing that is a lot more substantial than a mud hut; mod cons such as a telephone, television, washing machine, and refrigerator; considerable income support; and heavily subsidised public transport, education, and health services. (Note: This is not in the least a call for complacency about the dire situations many households in New Zealand are experiencing.)

Since this report is about poverty in New Zealand, it focuses on measures of relative poverty or hardship. Yet poverty is difficult to measure in relatively rich countries because there is no international agreement about the criteria to distinguish between the poor and the non-poor.<sup>9</sup>

MSD analyst Bryan Perry has summed up the measurement dilemma in New Zealand:

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6 Christopher Sarlo, “What is Poverty? Providing Clarity for Canada” (Fraser Institute, 2008), 4.

7 UNESCO, “Poverty,” Learning to Live Together, Website.

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8 The World Bank, “Global Monitoring Report 2014/2015: Ending Poverty and Sharing Prosperity” (Washington, DC: The World Bank, 2014).

9 Caterina Ruggeri Laderchi, Ruhi Saith and Frances Stewart, “Does the Definition of Poverty Matter? Comparing Four Approaches,” in United Nations Development Programme, *Poverty in Focus* (Brasilia: International Poverty Centre, UNDP, 2006), 10.



There is no clear delineation between the poor and the non-poor that science can identify independent of judgment ... What is crucial in discussing poverty rates and trends is to identify what measure is being used, and to be aware of the different rationales for and pictures presented by the different measures.<sup>10</sup>

The source of the problem is the (understandable) imprecision in accepted definitions. For example, a UN Statement in 1998 described poverty in the following terms:

Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society ...<sup>11</sup>

In 2005, the World Bank defined poverty as a “pronounced deprivation in well-being”.<sup>12</sup>

The words ‘denial’ and ‘deprivation’ are suggestive of a malign active agent.

In 2012, an Expert Advisory Group on child poverty in New Zealand, commissioned by the Children’s Commissioner, recommended the following definition for child poverty:

Children living in poverty are those who experience deprivation of the material resources and income that is required for them to develop and thrive, leaving such children unable to enjoy their rights, achieve their full

potential and participate as equal members of New Zealand society.<sup>13</sup>

The government’s official response in 2013 did not address this particular recommendation or object to the use of poverty language, but it did refer to establishing a Ministerial Committee on Poverty.<sup>14</sup>

In 2014, New Zealand academics Jonathan Boston and Simon Chapple defined children to be living in poverty if they were living “in families with insufficient money, or more broadly, insufficient resources, to participate fully in life’s opportunities”.<sup>15</sup>

Maxim Institute researcher Kieran Madden recommends defining poverty as “a situation where a person or family lacks the material resources to meet their minimal needs as defined by most New Zealanders”.<sup>16</sup> He also observes that a broader conception might embrace non-materialistic aspects, acknowledging, for example, that those in poverty lack the choices we take for granted.

For the purposes of this report, the notion of severely limited choices compared to what the great bulk of the population take for granted has some appeal. It recognises that households whose income is temporarily low are not necessarily experiencing severely limited choices whereas some whose income is temporarily high may be.

Whether those below some threshold measure that accords with that notion should be described as

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10 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” *op. cit.*, 78.

11 UNESCO, “Statement of Commitment for Action to Eradicate Poverty,” Press Release ECOSOC/5759 (20 May 1998).

12 The World Bank, “Introduction to Poverty Analysis” (Washington, DC: The World Bank, 2005), 8.

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13 Children’s Commissioner’s Expert Advisory Group (EAG) on Solutions to Child Poverty, *Solutions to Child Poverty in New Zealand: Evidence for Action* (Wellington: Office of the Children’s Commissioner, 2012), 2. See also EAG, “Working Paper No 1: Defining and Measuring Child Poverty” (Wellington: Office of the Children’s Commissioner, 2012).

14 New Zealand Government, “Government Response to the Children’s Commissioner’s Expert Advisory Group on Solutions to Child Poverty” (Wellington: New Zealand Government, 28 May 2013), 13.

15 Jonathan Boston and Simon Chapple, *Child Poverty in New Zealand* (Bridget Williams Books, 2014), 22.

16 Kieran Madden, “The Heart of Poverty: Defining and Measuring What it Means to be Poor in New Zealand” (Auckland: Maxim Institute, 2015), i.

experiencing poverty is a matter of terminology – about which little agreement can be expected.

Turning from poverty definitions to measures, two common thresholds used internationally are 50% and 60% of median country income. Income might be measured on a before- or after-housing cost (BHC and AHC) basis. The level for the median income threshold might be its value in some benchmark year or its value in the current year.

Note that such relative income measures lack international comparability in that those with low relative incomes in a high income country may be appreciably better off materially than those with low relative incomes in a poorer country.

Although there is no official definition of poverty in New Zealand, MSD has reported extensively on measures of hardship and inequality in a poverty context. In particular, Perry’s statistical reports in 2014 and 2015 use “low-income thresholds set at 50% and 60% of median household income”, adjusted for household size (number of people per household) and composition (age and relationships between people), to analyse “trends in income poverty”.<sup>17</sup> Children living in households with equivalised incomes below a given threshold are deemed living in poverty. The child poverty rate is the number of such children as a percentage of all children. That description makes sense if the threshold makes sense.

To put the 50% and 60% relative income benchmarks into perspective, Perry notes:

- Only those in the bottom income decile have measured incomes less than 50% of the median equalised household income.
- Social assistance levels “generally lie in the 50% to 65% range”.

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17 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2013” (Wellington: Ministry of Social Development, 2014), 111. (The 2014 report is an earlier version of the 2015 reports.)

- The benefit rate for New Zealand Superannuation ranged from 48% to 67% of the median between 1982 and 2010.<sup>18</sup>

The proportion of those below thresholds set to some fraction of median income is an indicator of the dispersion of the income distribution below the median. If everyone below the median received \$1 less than the median income, no one would be in poverty on the 50% or 60% relative income measures – no matter how meagre the median level or how large incomes were above the median level. Alternatively, if everyone’s disposable income were to double in the fullness of time, the proportion of the population below any given threshold would be unchanged.<sup>19</sup>

The seminal importance of productivity growth for raising living standards can be illustrated by contrasting points of view today with those back in 1936 when New Zealand’s Arbitration Court determined that a basic weekly wage of £3 16s was sufficient for an adult male to maintain himself, his wife, and three children in a fair and reasonable standard of comfort.<sup>20</sup>

That 1936 basic wage converts to \$396.11 per week or \$9.90 per hour in June quarter 2012 dollars using the Reserve Bank of New Zealand’s inflation calculator. The hourly rate represents 73% of the minimum wage of \$13.5 in mid-2012 and 54% of the \$18.4 per hour ‘living wage’ proposed in 2012 by researchers Peter King and Charles Waldegrave.<sup>21</sup>

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18 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” op. cit., 200–201.

19 Of course, this could only be achieved in real terms by many decades of high labour productivity growth. It took 50 years for New Zealand’s real GDP per capita to double between the mid-1960s and 2014.

20 This determination illustrates the male ‘breadwinner’ role at the time. Mothers with dependent children were expected to be full-time carers. No income tax was levied on personal incomes of less than £210 pa. See Statistics New Zealand, *The New Zealand Official Yearbook 1936* (Wellington: SNZ, 1936).

21 Peter King and Charles Waldegrave, “Report of an Investigation into Defining a Living Wage for New Zealand” (Wellington: Family Centre Social Policy Research Unit, December 2012).

Moreover, their living wage calculation assumed 1.5 working adults, two children, and a continuance of existing state support arrangements, including the Accommodation Supplement and Working for Families. The assessed disposable income for such a household was 77% of the then median after-tax household income.<sup>22</sup>

The weekly 1936 amount of \$396.11 in 2012 dollars can be compared with benefit rates in 2012. Using Perry's conversion factor of 2.43 for a household of two adults and three children, \$396.11 is equivalent to a weekly income of \$163 for a single person household.<sup>23</sup> In mid-2012, the weekly post-tax benefit rate was \$213.49 for a woman living alone under the Domestic Purposes Benefit<sup>24</sup> (DPB) and \$348.92 for a single person living alone on New Zealand Superannuation (NZS).<sup>25</sup> These calculations do not take into account other possible benefits such as the accommodation supplement.

Such calculations illustrate the time-dependent nature of assessments of poverty rates, and indeed of benefit levels. Productivity growth increases the scope of what most people consider to be necessary and affordable, and new technologies greatly increase the scope of people's desires. Statistics New Zealand's 1945 census found that 93% of dwellings had electric lights, 75% a hot-water service, and 70% a flush toilet. For Māori, the corresponding proportions were starkly lower at 35%, 20%, and 13%. Across all dwellings, 38% used a coal, wood or coke range for cooking.<sup>26</sup> Microwave ovens, television sets, computer games, and the Internet were something for science fiction

writers to imagine and highly innovative people to design and create.

Relative poverty is also assessed by commodity specific or activity specific indicators of hardship. The European Union produces such *non-income measures* (NIMs) for European countries and Organisation for Economic Co-operation and Development (OECD) publications extend the coverage to include several non-European member countries, including New Zealand. Perry's 2014 and 2015 reports include detailed and comprehensive NIMs. NIMs are commonly derived from responses to survey questions relating to such factors as "access to household durables, ability to keep warm, have a good meal each day, keep oneself adequately clothed, repair basic appliances as required, visit the doctor, pay the utility and rent/mortgage bills on time, pursue hobbies and other interests, and so on".<sup>27</sup>

It is not necessary to use the term 'poverty' in New Zealand when 'low income populations' would suffice but, as Perry observes, doing so is now a "common practice in New Zealand and internationally" – for example, in OECD and UNICEF publications and EU reporting practices.<sup>28</sup> We would add that in an NIM context, the term 'relative hardship' might also suffice.

## 2.3 POVERTY STATISTICS FOR NEW ZEALAND

### Relative income poverty

Perry has summarised five relative income poverty statistics for the entire New Zealand population (Table 1) and the same statistics for those under 18 years (Table 2). In both tables, AHC and BHC stand for after- and before- housing costs, respectively. The AHC threshold is defined as the BHC threshold less 25%.<sup>29</sup>

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22 Ibid., 4.

23 Bryan Perry, "Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014," op. cit., Table A.4, 10.

24 In July 2013, the main DPB category, Sole Parent, was renamed Sole Parent Support. Two other DPB categories, Care of Sick or Infirm and Women Alone, were absorbed into other benefits.

25 See Ministry of Social Development, "Benefit Rates at 1 April 2012," Website.

26 Statistics New Zealand, *The New Zealand Official Yearbook 1950* (Wellington: SNZ, 1950), Chapter 23.

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27 Bryan Perry, "Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2013," op. cit., 211.

28 Ibid., 111.

29 Ibid., 93 and 202–203.

**Table 1: Relative income poverty measures in New Zealand**

	BEFORE HOUSING COSTS (BHC)				AFTER HOUSING COSTS (AHC)					
Threshold type	Constant value		Relative to contemporary median		Constant value		Relative to contemporary median			Population (m)
HES year	60% 1998 median	60% 2007 median	50% contemp median	60% contemp median	60% 1998 median	60% 2007 median	40% contemp median	50% contemp median	60% contemp median	
1982	12	–	7	14	8	–	4	6	9	3.03
1984	13	–	7	14	9	–	4	6	9	3.06
1986	14	–	6	13	8	–	3	5	7	3.07
1988	12	–	5	13	9	–	4	6	10	3.11
1990	14	–	5	13	11	–	4	6	11	3.15
1992	24	–	8	15	21	–	7	11	17	3.23
1994	26	–	7	15	23	–	7	13	19	3.32
1996	20	–	8	14	21	–	8	13	18	3.43
1998	16	–	7	16	18	–	9	13	18	3.54
2001	16	27	8	18	19	25	8	13	20	3.80
2004	13	25	10	21	17	22	9	14	20	3.96
2007	11	19	10	19	13	18	9	13	18	4.13
2009	7	15	9	19	12	17	9	14	19	4.21
2010	9	16	10	19	12	18	9	14	20	4.26
2011	10	17	10	19	14	19	10	15	20	4.31
2012	7	15	8	18	13	17	10	14	19	4.34
2013	8	14	9	18	12	16	10	14	18	4.37
2014	8	14	10	20	13	17	–	15	20	4.42

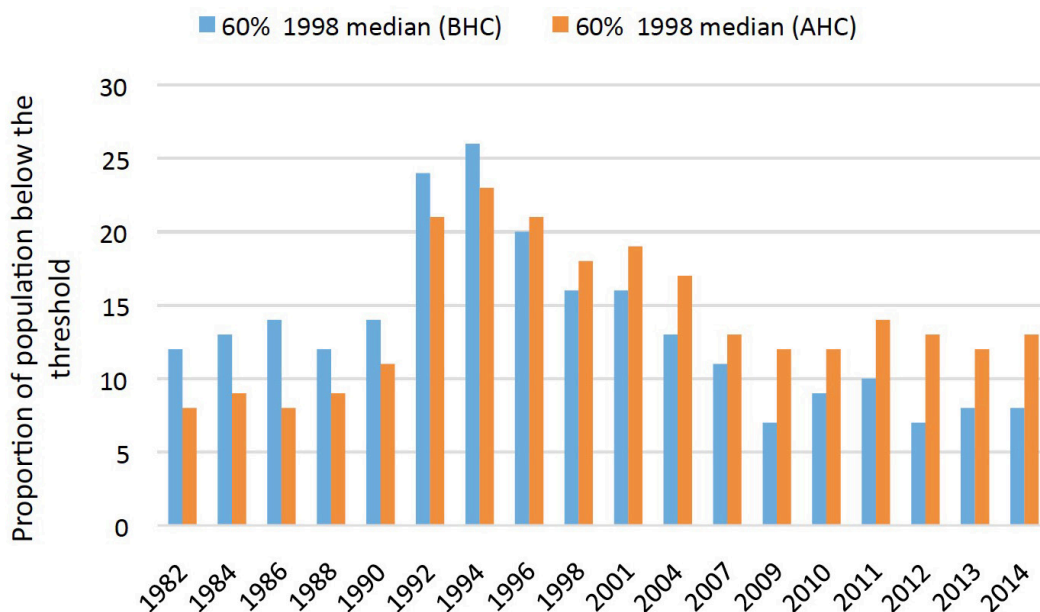
Source: Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” Tables F.3 and F.4 (Wellington: Ministry of Social Development, 2015), 98–99.

Space does not permit a full discussion of the insights provided by these statistics, but the following points are of particular interest for the purposes of this report:

- Real income growth between 1982 and 2014 helped reduce the proportion of the population below an unchanged 1998 median income threshold on a BHC basis from 12% to 8% (see column 1).
- In stark contrast, the proportion rose from 8% in 1982 to 13% in 2014 on an AHC basis (see column 5). In short, housing costs have risen markedly relative to disposable incomes during this period.<sup>30</sup>

- Economic downturns tend to increase the proportions below any given threshold – hence the big lift in both the BHC and AHC proportions between 1988 and 1994 and the smaller lift between 2009 and 2011. Figure 1 charts the relative movements.
- The proportion of the population below the contemporary median thresholds in 2014 was much the same as in 2004 on all the measures. This indicates that incomes around the threshold level have tended to grow as fast as the median itself.<sup>31</sup>
- The proportion of the population below a contemporary threshold rose markedly between 1982 and 2004 on all the measures, but more so on an AHC basis.

**Figure 1: Effects of rising housing costs and unemployment**



Source: Adapted from Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” Tables F.3 and F.4 (Wellington: Ministry of Social Development, 2015), 98–99.

30 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014,” op. cit., pp 52–53 shows that the proportion of households spending more than 30% of their income on housing has been highest for the bottom income quintiles since 1988. Rising housing costs since 1988 have also hit the bottom quintiles disproportionately on this measure. For example, for the bottom quintile the proportion tripled from 16% to 48% between 1982 and 1994 and was 41% in 2014. For all households the proportion was 11% in 1982, 22% in 1994 and 27% in 2014.

31 For relevant statistics, see Ibid., Tables D.2 and D.4.

**Table 2: Relative income poverty for children under 18 years, 2014**

	BEFORE HOUSING COSTS (BHC)				AFTER HOUSING COSTS (AHC)					
Threshold type	Constant value		Relative to contemporary median		Constant value		Relative to contemporary median			Total children (thousands)
HES year	60% 1998 median	60% 2007 median	50% contemp median	60% contemp median	60% 1998 median	60% 2007 median	40% contemp median	50% contemp median	60% contemp median	
1982	18	–	11	20	12	–	6	9	14	940
1984	21	–	12	21	15	–	6	10	15	925
1986	20	–	9	20	11	–	5	7	11	895
1988	16	–	7	18	12	–	5	8	13	885
1990	17	–	7	17	16	–	5	7	16	875
1992	33	–	12	25	33	–	9	17	27	875
1994	36	–	10	24	35	–	10	20	29	910
1996	28	–	11	22	32	–	12	20	28	940
1998	20	–	9	20	28	–	14	20	28	950
2001	22	35	12	24	29	37	11	21	30	1020
2004	19	30	14	26	23	31	11	19	28	1040
2007	13	20	13	20	17	22	11	16	22	1065
2009	9	16	12	21	18	24	13	20	26	1070
2010	12	20	14	23	17	26	11	20	30	1065
2011	13	20	13	22	20	25	12	20	27	1067
2012	11	18	12	21	19	24	13	20	27	1047
2013	10	16	11	20	16	22	13	19	24	1064
2014	10	17	14	24	17	23	–	21	29	1058

Source: Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” Tables F.6 and F.7 (Wellington: Ministry of Social Development, 2015), 100–101.

In 2014, the proportion of New Zealanders in relative income poverty ranged between 10% and 20%, depending on the measure.<sup>32</sup>

Table 2 provides the corresponding statistics for those under the age of 18 to those in Table 1. The trends are similar but a key difference is that the proportions are larger for children than for the total population. (On the flip side, the proportions are lower for the elderly than for the total population.)

The proportion of those under 18 years in relative income poverty in 2014 was between 14% and 29%, depending on the measure (but using the 2007 constant measure instead of 1998), or between 150,000 children (50% BHC contemporary) and 305,000 children (60% AHC contemporary).

**Perry comments:**

The longer-run findings on child poverty reflect two factors: first, AHC incomes in 2013 for low-income households were around the same as they were in the 1980s in real terms, and second, median household income has risen in real terms in the period. This means that the incomes of lower-income households with children are further from the median (ie there is higher inequality in the lower half of the distribution in 2013 than in the 1980s).<sup>33</sup>

Perry also compares New Zealand’s relative income poverty rates with the overall OECD and EU rates (Table 3).<sup>34</sup> New Zealand’s rates are comparable with the OECD and EU averages.

**Table 3: Relative income poverty rates, 2011–12**

Country/ Region	OECD 50%		EU 60%	
	All	0–17	All	0–17
New Zealand	10	13	18	20
Australia	14	13	21	22
OECD-34 / EU-27	10	11	17	21

*Source: Adapted from Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” Tables J.1–J.4 (Wellington: Ministry of Social Development, 2015), 150–153.*

It should be borne in mind that many people under a given ‘income poor’ threshold in New Zealand will have a lower material standard of living than their counterparts in higher income OECD countries. For example, it does not follow that New Zealand is doing better than, say, Australia because a smaller proportion of New Zealanders are experiencing lower relative income poverty. As Perry documents, measured income grossly understates ongoing consumption for the bottom income decile of the population.<sup>35</sup>

**Relative material hardship poverty**

Measures of relative material hardship focus on the question of ‘not enough’ rather than on ‘less than’.<sup>36</sup>

Statistics on the degree to which households feel they ‘do not have enough’ can be compiled from survey information. One international source is EU-13, the European Union’s 13 indicators of material hardship (Table 4).

32 We follow Perry in discounting the relevance for a relative income poverty measure of a 1998 threshold by 2014, given the real income growth since 1998.  
 33 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2013,” op. cit., 24.  
 34 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014,” op. cit., 148–151.

35 See, Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014,” op. cit., 12 and Appendices 8 and 9.  
 36 For a list of the indicators of material hardship used to construct hardship indexes, see Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2013,” op. cit., Tables L.1 and L.5, 213 and 223.

**Table 4: Composition of EU-13**

have a meal with meat, fish or chicken every second day
keep the home adequately warm
replace worn-out clothes by some new ones
have two pairs of properly fitting shoes
replace worn-out furniture
have access to a car / van for personal use
avoid arrears in mortgage or rent, utility bills or HP instalments
spend a small amount of money each week on oneself
have both a computer and an internet connection
have regular leisure activities
have a get together with friends/family for a drink/meal at least monthly
have one week's annual holiday away from home
ability to face unexpected expenses of NZD1500 <sup>37</sup>

Source: Bryan Perry, “Measuring and Monitoring Material Hardship for New Zealand Children: MSD Research and Analysis Used in Advice for the Budget 2015 Child Hardship Package” (Wellington: Ministry of Social Development, 2015), 8.

**Table 5: Hardship measures EU-13, 2008 data for NZ, 2009 for EU countries**

	Whole Population	65+	0-17	Child Risk Ratio
<b>Material (5+)</b>				
NZ	11%	3%	18%	1.6
UK	11%	6%	16%	1.5
Sweden	11%	2%	3%	0.3
EU 20 Median (approx.)	11%	8%	15%	1.4
<b>Severe (7+)</b>				
NZ	4%	1%	8%	2.0
UK	4%	2%	6%	1.5
Sweden	1%	1%	1%	1.0
EU 20 Median (approx.)	6%	4%	8%	1.3

Source: Bryan Perry, “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons” (Wellington: Ministry of Social Development, 2015), Tables C.3–C.5, 13–15.

Table 5 summarises measures of hardship in New Zealand in 2008 based on EU-13.<sup>38</sup> Those who experience 5 or more of the 13 indicators are deemed to be in ‘material hardship’. Those who experience 7 or more of the 13 indicators are deemed to be in ‘severe hardship’. This non-income measure can aid cross-country comparisons on degrees of ‘absolute hardship’.

37 For each country, the amount is set at a suitable value close to ( $\pm 5\%$ ) the per month national income poverty line (60% of median) for the one person household. There is no adjustment for household size or composition.

38 See Bryan Perry, “Measuring and Monitoring Material Hardship for New Zealand Children: MSD Research and Analysis Used in Advice for the Budget 2015 Child Hardship Package” (Wellington: Ministry of Social Development, 2015), and “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons” (Wellington: Ministry of Social Development, 2015).

The proportion of New Zealand’s population experiencing material hardship on the EU-13 measure was 11% – the same as for Austria, Belgium, Spain, the United Kingdom, and the median for 20 EU countries. For those older than 64 it was 3% – the same as for Luxembourg and Denmark and well below the 8% median for 20 EU countries. For those aged 0–17, it was 18% – slightly higher than the 17% for France, Ireland, Italy and Estonia, and above the 15% median for 20 EU countries.

The proportion of New Zealand’s population experiencing severe material hardship was 4% – the same as for Spain and the United Kingdom and below the 6% median for 20 EU countries. For those older than 64, it was 1% – the same as for Denmark, Luxembourg, Sweden and the Netherlands, and well below the 4% median for 20 EU countries. For those aged 0–17 it was 8%, the same as for



Belgium, Estonia and Italy, and the median for 20 EU countries.<sup>39</sup>

New Zealand stands out from the European Union on the degree to which child hardship exceeds hardship for the entire population (see the child risk ratio column in Table 5).

MSD also calculates hardship statistics for a 17-item material deprivation index (DEP-17) from a 2008 Living Standards Survey. Table 6 lists the 17 items in this index and shows the number of people and children living in households that reported a need under each item – as a proportion of the total population and as a proportion of all children, respectively.

**Table 6: Deprivation indicators (DEP-17), 2008**

Item	All	0–17 yrs
<b>Enforced lack of essentials (for respondent or household as a whole)</b>		
meal with meat, fish or chicken (or vegetarian equivalent) at least each 2nd day	2	3
two pairs of shoes in good repair and suitable for everyday use	5	8
suitable clothes for important or special occasions	7	10
presents for family and friends on special occasions	6	7
home contents insurance	12	16
<b>Economised, cut back or delayed purchases ‘a lot’ because money was needed for other essentials (not just to be thrifty or to save for a trip or other non-essential)</b>		
went without or cut back on fresh fruit and vegetables	10	14
bought cheaper cuts of meat or bought less than wanted	27	37
put up with feeling cold to save on heating costs	10	14
postponed visits to the doctor	11	15
postponed visits to the dentist	26	35
did without or cut back on trips to the shops or other local places	15	21
delayed repairing or replacing broken or damaged appliances	12	19
<b>In arrears more than once in last 12 months (because of shortage of cash at the time, not through forgetting)</b>		
rates, electricity, water	11	18
vehicle registration, insurance or warrant of fitness	9	15
<b>Financial stress and vulnerability</b>		
borrowed money from family or friends more than once in the last 12 months to cover everyday living costs	13	19
feel ‘very limited’ by the money available when thinking about purchase of clothes or shoes for self (options were: not at all, a little, quite limited, and very limited)	19	29
could not pay an unexpected and unavoidable bill of \$500 within a month without borrowing	19	25
<i>These figures are based on the information provided by the household’s respondent. For example, in the fresh fruit and vegetables row, 10% of the population were in households where the respondent said they went without or cut back ‘a lot’ (rather than ‘a little’ or ‘not at all’), and 14% of children (aged 0–17 yrs) were in such households. It does not mean that 14% of children went without fresh fruit or vegetables.</i>		

39 Bryan Perry, “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons”, op. cit., 13–15, Tables C.2–C.5, medians exclude Iceland, Norway and New Zealand.

Source: Bryan Perry, “Measuring and Monitoring Material Hardship for New Zealand Children: MSD Research and Analysis Used in Advice for the Budget 2015 Child Hardship Package,” Table D.1 (Wellington: Ministry of Social Development, 2015), 14.

In Table 7, Perry shows the proportions of the total population and the total child population that reported themselves in the 2008 Living Standard Survey as lacking in the items listed in the table. For example, 3% of the population were in households that reported 11 or more unmet needs out of the 17 and these households included 6% of all children. Those in these households were clearly experiencing vastly more limited material standards of living than the 71% of adults and 58% of children living in households reporting no more than two unmet needs.

Perry also compares hardship rates for different groups within New Zealand (Table 8).

The first three rows in Table 8 replicate the information for New Zealand in Table 5 for EU-13, but supplement it with incidence measures based on DEP-17.

The figures in the ‘SP<65’ row show that the incidence of measured material hardship in New Zealand is by far the greatest among sole parent households under the age of 65.

The incidence of hardship among children in ‘primarily benefit dependent’ households is particularly high: 51% of children in such households lack on at least 7 of the MSD’s 17 deprivation indicators, and 28% on at least 10 of these indicators. Children in ‘benefit-dependent households’ are

**Table 7: Population proportions for DEP-17 scores**

Score	0	1	2	3	4	5	6	7	8	9	10	11+
ALL (%)	46	15	10	7	5	4	3	3	2	1	1	3
0–17 yrs (%)	33	14	11	10	6	6	4	4	4	2	2	6

Source: Bryan Perry, “Measuring and Monitoring Material Hardship for New Zealand Children: MSD Research and Analysis Used in Advice for the Budget 2015 Child Hardship Package,” Table D.2 (Wellington: Ministry of Social Development, 2015), 16.

**Table 8: Hardship rates within New Zealand using EU-13 and DEP-17, 2008**

LSS 2008	‘Standard’ EU hardship		‘More severe’ EU hardship	
	EU-13 (5+)	DEP-17 (7+)	EU-13 (7+)	DEP-17 (10+)
ALL	11	11	4	4
0–17	18	17	8	8
65+	3	2	~1	~1
2P <65	11	9	4	3
SP <65	35	38	17	22
Couple <65	5	5	2	1
European (total)	8	8	3	3
Māori (total)	24	25	9	11
Children (market)	11	10	4	4
Children (benefit)	51	51	24	28

Source: Bryan Perry, “Measuring and Monitoring Material Hardship for New Zealand Children: MSD Research and Analysis Used in Advice for the Budget 2015 Child Hardship Package,” Table D.11 (Wellington: Ministry of Social Development, 2015), 31.

seven times more likely to experience hardship on at least 10 indicators than children in households where market income is the dominant source of spending power. (Compare the figures in the last two rows of the last column in Table 8.)

There is also a major difference between benefit- and market-income dependent households if the comparison is restricted to households that fall below a 60% fixed line threshold. Perry assesses that in a recent three-year period, the incidence was 75% for primarily benefit-dependent households and 12% for primarily market income-dependent households.<sup>40</sup>

The incidence of hardship for Māori is around three times that for European New Zealanders. (Compare the 7th and 8th rows of Table 8.)

Figure 2 shows that the incidence of child hardship varies greatly according to ethnicity and benefit dependency. The proportion of children experiencing material hardship in 2008, defined

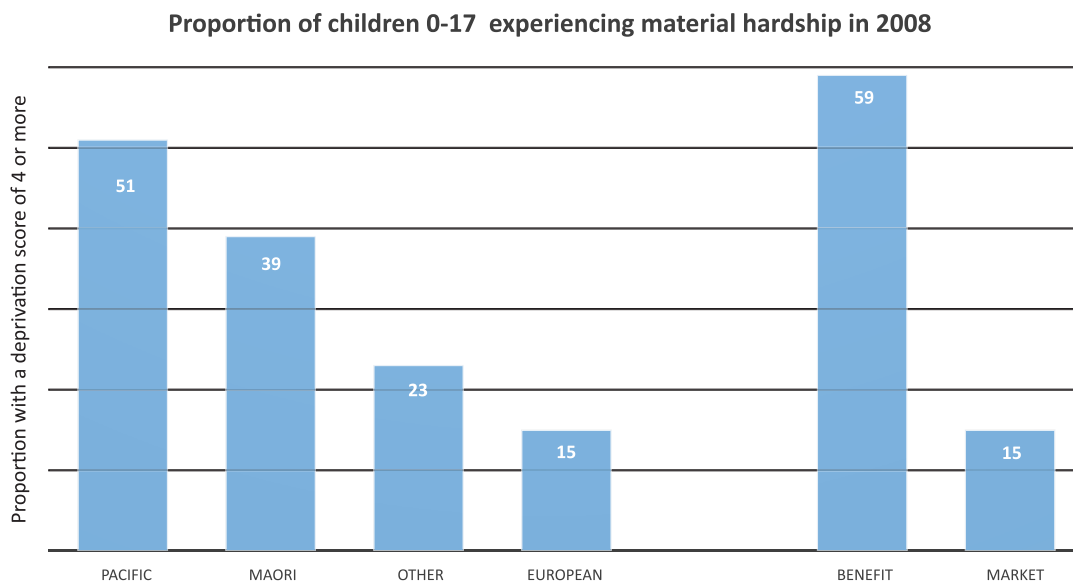
as having a deprivation score of four or more, was 51%, 39%, 23%, and 15% for Pacific, Māori, Other, and European, respectively. For children in benefit-dependent households it was 59%. For those in the more numerous households where the primary source of spending power came from market incomes, the proportion was 15%.

Of course, these incidence statistics tell us nothing about causation.

A high incidence for a small subgroup of the population does not imply a high contribution to the total. Perry observes that around half the poor children come from two parent families and half from sole parent families.<sup>41</sup>

The high proportion of children in households experiencing high rates of relative material hardship is particularly concerning. After all, children don't choose their parents and have limited other choices.

**Figure 2: Child hardship by ethnic group and source of disposable income**



Source: Bryan Perry, “Child Poverty and Living Standards” (The Child Poverty Monitor, 2014), Figure 11, 34.

40 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014.” *op. cit.*, 133, also reports that 63% of children deemed to be in income-poor households using this threshold were in households mainly deriving disposable income from benefits and 37% were in market-income households. (Households mainly reliant on benefits accounted for 22% of all children.)

41 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” *op. cit.*, 122.

The incidence of child hardship is particularly high for sole parents under the age of 65 – 22% of such households in 2008 for a severe threshold, and 38% for a less severe threshold.

The incidence is particularly high for Māori households – 11% in 2008 for a severe threshold, and 25% for a less severe threshold, as against 4% and 11% respectively for all households.

The incidence of relative material hardship in 2008 was much higher in benefit-dependent households than in households whose major source of income was market income. On the severe threshold it was seven times higher (28% vs 4%), and five times higher (51% vs 10%) for a less severe threshold.

Even so, low market household incomes are an issue. The highest incidence households are a minority. Households mainly dependent on market incomes contain roughly half the children in New Zealand below a relative material hardship threshold. The number of children in two-parent households below a threshold is roughly the same as for one-parent households.

Table 9 shows trends in two material hardship measures between 2007 and 2014. In 2014, the severe hardship rates (DEP-17 9+) for the entire population, those under age 18, and those who were 65+ were 5%, 8%, and 1%, respectively. For the less severe threshold measure (DEP-17 7+) it was 8%, 14%, and 2%, respectively.

The marked difference between the experiences of the 65+ group and the rest is also evident in comparing the 2007 and 2011 rates. New Zealand Superannuation gives the elderly an easier ride through economic downturns.

Table 10 shows that the 8% ‘severe hardship’ rate in 2014 represented 80,000 children. This was still higher than in pre-recession 2007, but appreciably down from the 105,000 peak in 2011. For the ‘less severe’ threshold, the number in 2014 was 145,000, the same as in 2007 and well down from the 220,000 peak in 2011.

**Table 9: Material hardship measures, 2007–14**

	Less stringent threshold			More stringent threshold		
	7+ on DEP-17			9+ on DEP-17		
	ALL	0–17	65+	ALL	0–17	65+
2007	10	14	4	4	6	1
2009	11	16	4	5	9	3
2010	12	20	3	5	9	1
2011	13	21	3	6	10	1
2012	11	17	5	5	9	2
2013	9	15	2	5	9	1
2014	8	14	2	5	8	1

Source: Bryan Perry, “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons” (Wellington: Ministry of Social Development, 2015), Table G.2, 59.

**Table 10: Material hardship rates for children, 2007–14**

HES year	≡ 7+ on DEP-17		≡ 9+ on DEP-17	
	rate (%)	numbers	rate (%)	numbers
2007	14	145,000	6	65,000
2009	16	170,000	9	95,000
2010	20	210,000	9	90,000
2011	21	220,000	10	105,000
2012	17	180,000	9	90,000
2013	15	165,000	9	100,000
2014	14	145,000	8	80,000

Source: Bryan Perry, “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons” (Wellington: Ministry of Social Development, 2015), revised Table G.3, 60–61.

## Mismatch between relative income measures of poverty and hardship

Perry reports that “[t]he overlap between the income poor and materially deprived groups is modest across all EU countries and for New Zealand, typically of the order of 35% to 45% for the population as a whole”.<sup>42</sup>

In 2012, of those deemed to be experiencing material hardship, around 17% were in households with incomes greater than the median household income; 33% in households with incomes greater than a 60% AHC threshold but below the median household income; and 48% in households with incomes less than the 60% AHC threshold. Those in the 48% group are likely to experience the greatest stress and need of these groups.<sup>43</sup>

Perry has expressed concern about the degree to which some users attribute child-specific material lacks (e.g. raincoats and school trips) and household deprivations (e.g. lack of good heating and meals) to all those below a given income threshold. His statistics indicate that most children in households with incomes under a 60% AHC threshold “have all or almost all of the listed items. Less than half the children under the AHC 60% and 50% income thresholds are in families experiencing hardship under the ‘standard’ EU deprivation measure”.<sup>44</sup>

Regardless, the front page of the *Dominion Post* on 15 December 2015 headlined that nearly a third, or 305,000 (29%) of children in New Zealand are living in poverty. However the remainder of the article used statistics of material hardship to justify calls for greater government action to reduce “child poverty”. It thereby conflated two notably different categories. Yet, if material hardship is the real concern, why headline a much higher income-based statistic and why fail to note the extent of

the lack of overlap between the households falling into each category? Even in respect of material hardship, the article interpreted a MSD finding that around 14% of children were in households that cut back or did without fresh fruit and vegetables a lot, as “go[ing] without the essentials – fruit, vegetables, warm housing and clothing”. Cutting back a lot does not mean going without.

## Persistence of income and material hardship poverty

Parental income affects children’s income when they become adults.<sup>45</sup> A New Zealand Treasury working paper by Matthew Gibbons tentatively found using statistics for people born in Dunedin in 1972–73 that “a 1% increase in the income of a person’s father is associated with, on average, a 0.26% increase in their own income when they are an adult”.<sup>46</sup> This result is “probably within a similar range to rates for people from most other developed countries”.<sup>47</sup> Gibbons found that the rate of intergenerational mobility is affected internationally by:

- the quality of its education system;
- the rate of economic growth;
- children’s physical and emotional environment; and
- opportunities for children to improve and use their capabilities.<sup>48</sup>

Gibbons found evidence of “a relatively high degree of intergenerational mobility” for those whose fathers were in the lowest two deciles for socioeconomic status. He also found that “[t]hose born into families in the top two deciles seem less likely to be downwardly mobile than those in the

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42 Bryan Perry, “The Material Wellbeing of New Zealand Households,” op. cit., 52.

43 Ibid., 53, particularly Figure F.2.

44 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” op. cit., Annex to Section H, 131.

45 As would be expected from genetic and environmental considerations.

46 Matthew Gibbons, “Income and Occupational Intergenerational Mobility in New Zealand,” Working Paper 10/06 (Wellington: New Zealand Treasury, 2010), 1.

47 Ibid., 2.

48 Ibid., 1–2.

bottom two deciles seem likely to be upwardly mobile”.<sup>49</sup>

Gibbons did not focus on upwards mobility for those on low or zero market incomes. However, he cites research showing that “between the ages of 16 and 21, the correlation coefficient in benefit dependence ... between parents and their children was at least one-third” and “the effects seemed to be more than twice as high for women as for men”.<sup>50</sup>

Nearly three-quarters (74%) of all beneficiaries up to the age of 25 had a parent on benefit while they were a child, and just over a third (35%) had a parent on benefit throughout their teenage years.<sup>51</sup> Note that this is association, not causation. This association is silent about the reasons why the parent was on a benefit in the first place.

Households close to the threshold can cross back and forth from one year to the next with their material circumstances barely changing. Statistics New Zealand has collected eight ‘waves’ of longitudinal statistics (from 2002–03 to 2009–10). Statistics on the first seven of these waves were available to Perry at the time of writing his 2015 reports. Whereas 15% of the population and 19% of children were below the 50% gross equivalised median income threshold in the average of these seven waves, 39% of the population and 47% of the children were below the threshold in at least one wave, and 2% of the population and 3% of the children were below it in all seven waves.<sup>52</sup>

Defining those whose average income during the seven years was below the average threshold income as being in ‘chronic poverty’, Perry reports that “chronic [relative income] poverty rates are around 70% of the cross-sectional rates for the

population and a whole, and more like 80% for children”.<sup>53</sup> Similar results have been found for the United Kingdom and Australia.<sup>54</sup> Based on this definition, chronic income poverty in New Zealand during 2002–09 was around 11% for the population and 16% for children.<sup>55</sup>

Perry found that income mobility patterns for New Zealand during this period were similar to the reported patterns in Australia, Canada, the United Kingdom, Germany, France, Belgium and Ireland. Some moved markedly up or down the income distribution, but a large number did not. In New Zealand, 54% were in the same decile or an adjacent one after seven years, compared to 53% in the United Kingdom.<sup>56</sup>

These three figures, 2%, 11% and 54%, for those below the 50% threshold in all seven waves, for those below it on average during the seven waves, and for those in the same or an adjacent decile after seven years provide contrasting perspectives on the persistence of chronically low incomes.

## 2.4 CONCLUDING OBSERVATIONS

The fact that around 50% of those experiencing relative material hardship are in households whose equivalised incomes exceed a 60% median relative income threshold raises the question of which plight is of more concern – material hardship or low income?

In our view, measures of material hardship are more compelling motivators of concern than the level of household equivalised income, particularly for the dubiously low relative to consumption reported incomes in decile 1. Low reported income,

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49 Ibid., 35.

50 Ibid., 10.

51 Ministry of Social Development, “Reforms helping our most vulnerable succeed,” Media Release (Wellington: MSD, 26 February 2015).

52 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013,” op. cit., 30.

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53 Ibid., 31.

54 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013,” op. cit., 177.

55 Ibid., Table K.9, 176.

56 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2013,” op. cit., 30.

for example, from self-employment, retirement, lifestyle choice, or hidden unlawful income, does not necessarily mean low wealth or consumption. Conversely, a higher reported income does not mean being comfortably off if household expenses have to be abnormally high for misfortunate reasons. Furthermore, a rise in the median income relative to lower incomes likely increases the proportion of low income households falling below a 50% or 60% threshold, but it does not tell us anything in itself as to whether hardship in these households has risen or fallen.<sup>57</sup>

We concur with Perry that a constant value threshold (e.g. 1998 or 2007 in tables 1 and 2) is more informative as to whether the incidence of relative income poverty has been falling or rising. Perhaps the most salutary finding in this respect is that the incidence of poverty on this measure has fallen markedly on a BHC basis but risen on an AHC basis.

The comparison between what was deemed a basic wage in 1936 and the apparently higher real benefit levels today raises the question why children in

benefit-dependent households are going hungry today. That is an open question. One point is that priorities are different today. No household in 1936 would have owned a car or lived in a house with the amenities that regulations and expectations build into the cost base today. The need for a car today for employment and other reasons may be a factor. The higher rents on more costly housing is another factor. A third possible factor is that two-adult households with one adult working in 1936 might have saved money through home baking, preserving, vegetable growing, keeping hens, knitting jerseys, and boiling recyclable nappies. Today's sole parents have less time. Doubtless hunger did occur back in 1936 among households living off the basic wage for a variety of reasons, including bad money management (e.g. gambling) or exceptional health or other costs. What suffices for the typical household won't suffice for all.

The housing cost/quality aspect is a reminder that regulations that impose costs that a majority of the population can afford could aggravate hardship among struggling households.

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<sup>57</sup> See Bryan Perry, "Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship, 1982 to 2014," *op. cit.*, Appendix 8, 207–215, for a discussion of the measurement issues with decile 1 incomes, and Bryan Perry, "The Material Wellbeing of New Zealand Households," *op. cit.*, 8, for the growing international use of hardship measures.





# THREE

## FACTORS CONTRIBUTING TO HARDSHIP

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Low household income is a major dimension of child poverty and is the result of a combination of factors. These include labour market conditions, low skill levels or limited expertise, social and health issues, housing costs and government policies and spending priorities.<sup>58</sup>

### 3.1 INTRODUCTION

Correlates of hardship are not necessarily its causes. In 2014, Auckland City Mission listed eight key factors that keep people in poverty: debt, justice (imprisonment and having a criminal record), housing costs, employment, health, food insecurity, service (welfare system complexity), and education.<sup>59</sup> The list is rather a mixed one regarding causation, but it raises the wider question of why people are in poverty in the first place.

Hardship, in the sense of disturbingly limited material choices, indicates a persistent lack of household wealth and disposable income. Since wealth has to be accumulated from saved and invested income, lack of wealth commonly (but not always) reflects previous low disposable income.

Statisticians define disposable income as market income less taxes. (Welfare benefits are negative taxes.) Benefit dependency among able-bodied people of working age reflects lack of market income.

This chapter examines some of the reasons why market incomes may be persistently low for a significant proportion of households headed by able-bodied people of working age. But it does not assess the relative materiality of the listed factors. Such

assessments are likely to be time and circumstance dependent. For example, the importance of a single factor may be evident during periods of abnormally high unemployment. However, in more normal times, no two households chosen at random are likely to be experiencing hardship for precisely the same reasons.

Nor is this chapter about welfare policy looking forward. Of course, past and present public policies must be part of the reasons why so many households are facing the situations they are facing. As such they come within the scope of this chapter, but only as givens. Neither this chapter nor this report assesses the desirability of current policies looking forward.

Finally, note that poverty and social exclusion are sometimes attributed to income and wealth inequality.<sup>60</sup> But in New Zealand, poverty is commonly defined as low relative income. If so, low income cannot cause poverty as poverty cannot cause itself. The same circularity problem arises if poverty is defined as low relative wealth. The focus of section 3.2 on the causes of low market incomes avoids this problem.

Of course, this observation does not dispose of the objection that causation can, and surely does, run in both directions. Lower income means fewer choices in relation to everything, including quality housing, health, education and transport. The causes of low incomes can thereby create a vicious circle, making it all the more necessary to identify them carefully.

Section 3.2 shows to what extent market incomes are very low in the bottom income deciles. To examine underlying reasons, it looks separately at the determinants of low wage rates and low rates of workforce participation.

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58 Children's Commissioner's Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13.

59 Auckland City Mission, "Speaking for Ourselves: The Truth About What Keeps People in Poverty from Those Who Live It," Family 100 Research Project (Auckland: Auckland City Mission, 2014), 2.

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60 New Zealand Council of Christian Social Services, "Building Hope for Better Lives Together," Vulnerability Report 21 (Wellington: NZCCSS, 2015), 8.

Section 3.3 looks at deeper proximate causes for low market incomes: poor educational achievement, difficult transitions from school to work, and labour market regulation.

Section 3.4 acknowledges the significance of negative taxes (i.e. government benefit payments). Benefit rates are determined by political processes, which balance contending voter preferences. This section contains some information on surveyed voter attitudes, but it does not attempt a political economy/voter choice analysis of benefit rate decisions.

Section 3.5 spreads the net deeper and wider.

Section 3.6 makes some concluding observations.

### 3.2 LOW MARKET INCOMES FOR THE BOTTOM DECILES

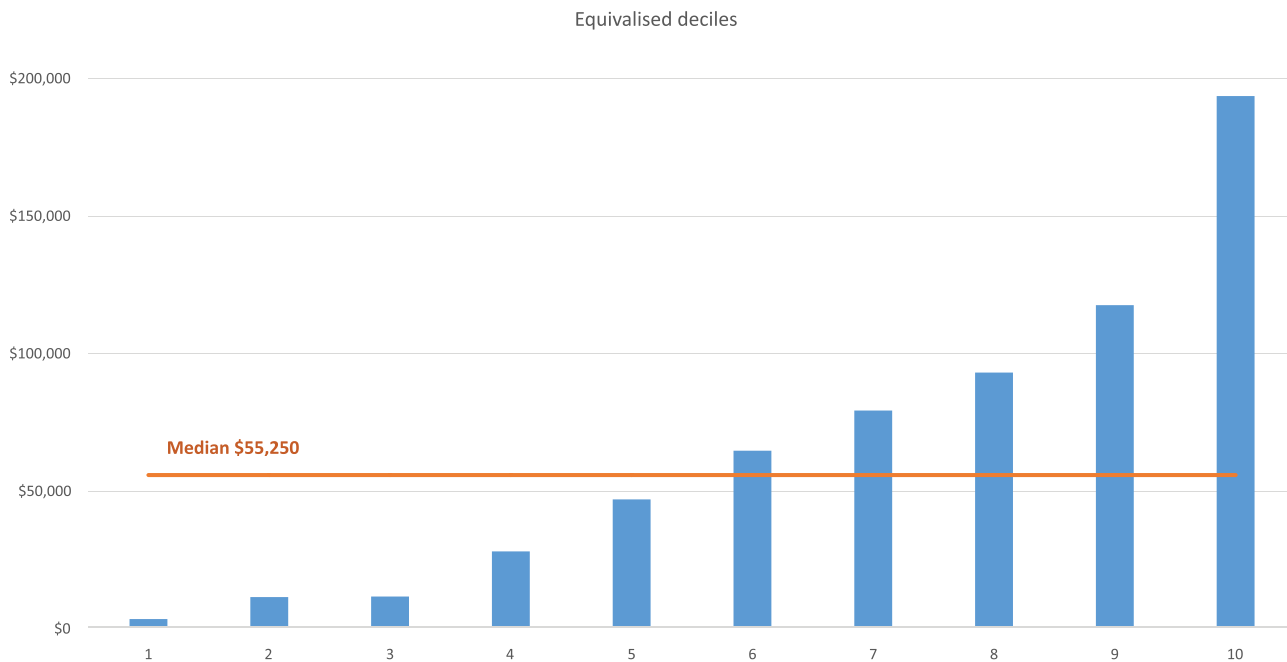
Market incomes are extremely low on average among households in the bottom income deciles. The vertical axis in Figure 3 shows the average market income in 2009/10 for each household

decile on the horizontal axis. Household deciles are ranked by equivalised disposable income.

Note that the statistics illustrated in Figure 3 are a static snapshot. They do not capture the (partial) tendency of higher and lower income households to revert towards the mean through time. For example, those entering the workforce after finishing their formal education can naturally expect to start on a lower wage rate than those with accumulated on-the-job work experience, skills and responsibilities. So there should be a general tendency for younger persons to move up the income scale over time. Researchers Athene Laws, Norman Gemmill and John Creedy have found statistical evidence in an income inequality context that younger persons and females have tended to experience more “inequality-reducing mobility and more rapid declines in cross sectional inequality measures than the overall sample”.<sup>61</sup>

The low average market incomes in the bottom deciles reflect in good part their relatively high concentration of retirees and working age benefit-

**Figure 3: Average household market income by decile (2010 dollars)**



Source: Adapted from Omar Aziz, Matthew Gibbons, Chris Ball and Emma Gorman, “The Effect on Household Income of Government Taxation and Expenditure in 1988, 1998, 2007 and 2010,” *Policy Quarterly* 8:1 (2012), 29–38, 32.

61 Athene Laws, Norman Gemmill and John Creedy, “Income Mobility and Income Inequality in New Zealand: Trends, Patterns and Relationships,” paper presented to the annual conference of the New Zealand Association of Economists (Wellington: NZAE, 2 July 2015).

dependent households. But they also reflect other things that impair earnings potential.

So what causes low market incomes? People naturally expect their market income to grow as they gain work experience, job-specific skills, and take on greater responsibilities. The Laws et al. finding that young people are more likely than the average person to gravitate towards higher incomes may illustrate this factor. Similarly, people who stop paid work to raise children tend to demonstrate greater upward mobility than the average person in the year when they resume their careers.

However, the time profile for lifetime consumption is necessarily smoother than for incomes as people borrow when young (e.g. student loans or mortgages), build up savings later in their working lives, and live off those savings to some extent in retirement.

It follows that hardship is more likely to be associated with chronically low income in conjunction with low assets than with low current income. This is one reason hardship measures can be a better indicator of real material difficulties than current income.

Unexceptional life-cycle considerations are far from being the only factor. The Expert Advisory Group's report for the Children's Commissioner reasonably stated that "low household income in New Zealand is frequently caused by unemployment, low pay and insecure employment".<sup>62</sup>

People of working age may be unable to work for many reasons, including ill-health, disability, bad luck, and/or poor choices. For those with little or no investment income, market income is the product of the hourly wage and hours worked (though the calculation is more complex for the self-employed).

### Low wage rates at the bottom end of the scale

Many households with full-time wage workers are falling below relative income and material hardship thresholds. In 2013, 9% of individuals in households

with at least one person under age 65 in a full-time job were in households experiencing relative income poverty as against a 60% AHC, 2007 fixed line threshold. The number of such households is so large that this 9% was equivalent to 40% of all individuals under age 65 in households below this threshold.<sup>63</sup> These statistics adjust for household size and include part-time incomes.

Low wage rates imply some combination of a low level of skill, productivity, responsibility, and/or risk of harm. Basically, they reflect an over-supply of workers relative to the jobs available. An over-supply of workers seeking relatively unskilled part-time jobs that fit with school hours would be a proximate cause of low wage rates. Competition from unskilled overseas labour is often suggested as a contributing factor, but balance of payments and labour market adjustment mechanisms should, in the fullness of time, still ensure competitiveness at wage rates that reflect productivity.<sup>64</sup> The significance of a flexible labour market is illustrated by an analysis by David Card, economics professor at Princeton University, of the effects of an abrupt inflow of Cuban migrants into Miami in just a few months in 1980. The inflow increased the local labour force by 7%, predominately among the unskilled. Card found that the inflow had "virtually no effect on the wages or unemployment rates of less-skilled workers, even among Cubans who had immigrated earlier".<sup>65</sup>

Income taxes and regulations that raise the cost of hiring and firing labour and/or other non-wage labour costs can also affect the wages employers can afford to pay, for better or for worse.

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62 Children's Commissioner's Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13.

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63 All these statistics are from Bryan Perry, "Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014," op. cit., Tables G.8 and G.9, 116–117.

64 See, for example, Selim Cagatay and Ralph Lattimore, "New Zealand Trade Liberalisation, Unemployment and Real Wages," Commerce Discussion Paper No. 79 (Lincoln University, 1999).

65 David Card, "The Impact of the Mariel Boatlift on the Miami Labor Market," *Industrial and Labor Relations Review* 43:2 (1990), 245–257, 245.

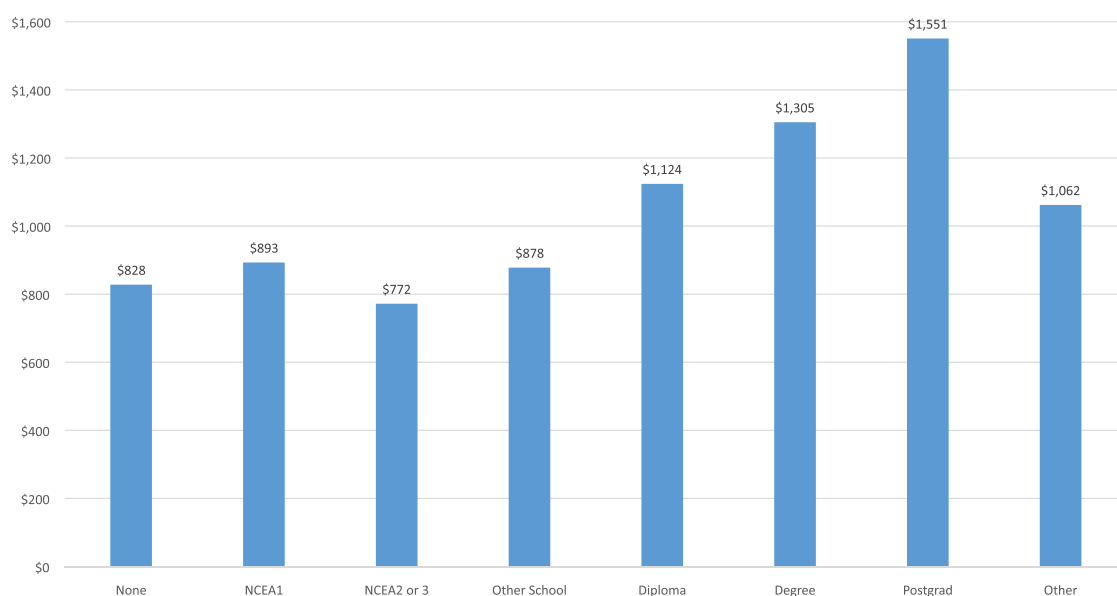
The Children’s Commissioner’s Expert Advisory Group suggested that the labour market can discriminate against workers on the basis of age, race or gender.<sup>66</sup> Individual firms no doubt do indulge in positive or negative discrimination, yet the profit motive gives firms an incentive to hire on merit, government policies permitting.<sup>67</sup> The expert group was also concerned that firms may fail to provide ‘family friendly’ workplace environments.<sup>68</sup> Indeed some might. But ‘family friendly’ workplaces may have a cost that government policies do not allow to be met through lower wage rates. The expert group’s report did not make a case that the local baker, electrician or painter could afford higher costs without some offsetting *quid pro quo*. The search for causes needs to dig deeper.

The expert group rightly sees education as “a major route out of poverty”. Of course, this presumes basic ability. Both it and the OECD’s review of New Zealand are concerned about the degree to which low educational achievement in New Zealand is associated with low socioeconomic status. The

expert group points to “lower participation rates in early childhood, lower levels of skills assessed at entry to primary school, and lower rates of achievement during both compulsory and tertiary education”.<sup>69</sup> In itself, this raises the question of causation. The OECD has found that the gap in New Zealand between the PISA scores of students with the lowest socioeconomic ranking and those of students with the highest socioeconomic ranking is one of the widest among OECD member countries. This suggests that socioeconomic status matters more for educational outcomes in New Zealand than in most other OECD countries.<sup>70</sup>

Unskilled jobs pay relatively low wage rates, at least for the same level of risk. In 2014, post-school graduates could expect to earn at least \$1,000 a week, much more than high school diploma holders, should they find paid work. Even so, the statistics charted in Figure 4 are not encouraging about the financial benefits of secondary school education short of a diploma.

**Figure 4: Average weekly wages by qualification level, 2014**



Source: Education New Zealand, “Salaries and Wages in New Zealand,” Website.

66 Children’s Commissioner’s Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13.

67 See, for example, Linda Gorman, “Discrimination,” *The Concise Encyclopaedia of Economics*, Website.

68 Children’s Commissioner’s Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13.

69 Ibid.

70 OECD, “Better Life Index – Education,” Website. France and the Slovak Republic also stand out in this respect.

## Low workforce participation by working age beneficiaries

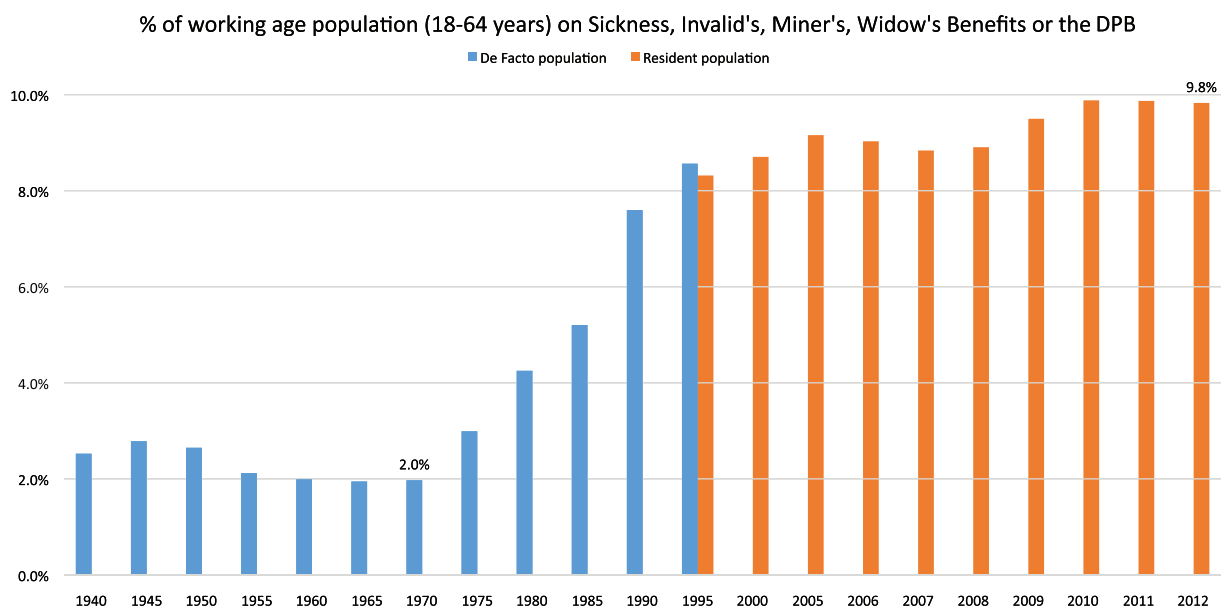
In international comparisons, New Zealanders overall have high labour force participation rates<sup>71</sup> and work relatively long hours.<sup>72</sup>

However, participation rates vary enormously across household types. Around 68% of two-parent households with children are two-earner households, compared to below 50% in the early 1980s.<sup>73</sup> In 2006, the employment rate for partnered mothers was about 70%, and not much lower for sole father households. For sole mother households it was under 55%.<sup>74</sup>

MSD reports that between 2009 and 2012, of the 310,000–333,000 people of working age receiving a main benefit, only around 17% (1 in 6) declared they had other income. In 2011 and 2012, 40% of those declaring other income were receiving the DPB.<sup>75</sup>

Figure 5 indicates that the proportion of the population aged 18–64 years receiving a sickness, invalid’s, miner’s, widow’s benefit or the DPB has risen from 2.0% in 1970 to fractionally under 10% in 2012<sup>76</sup> The sharp increase in DPB beneficiaries from 1975 is widely known. More curious perhaps is the rise from 0.9% to around 5.4% in the proportion on a sickness or invalid’s benefit between 1970 and 2012 when real GDP per capita rose by about 80%.

**Figure 5: Working age beneficiaries 1940–2012**



Sources: MSD for number of beneficiaries at March or June, SNZ for calendar year average population.

71 In 2013, 82.4% of New Zealanders of working age were participating in the labour force, the fifth highest among 35 OECD member countries. Statistics New Zealand, “Labour Force Participation Rate,” Website.

72 “New Zealand stands out internationally in terms of the proportion of workers putting in long hours.” See Paul Callister, “The Future of Work Within Households: Understanding Household-Level Changes in the Distribution of Hours of Paid Work” (Wellington: Department of Labour, 2004), 1.

73 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” *op. cit.*, Figure C.4, 47.

74 *Ibid.*, Figure H.2, 126.

75 Ministry of Social Development, “Benefit Recipients Declaring Other Income,” Table OB.1: Levels of other income declared by recipients of a main benefit, Website.

76 See also a similar chart in New Zealand Treasury, “Working Towards Higher Living Standards for New Zealanders,” New Zealand Treasury Paper 11/02 May 2011, Figure 16, 36.

Perry reports that more than 20%, perhaps even 25%, of children in New Zealand live in households where no adult is in full-time employment. He also tabulates Statistics New Zealand and Treasury data to show that 14 or 15% of children were living in workless households in 2014. The only good news is that these figure appear to be substantially lower than in the mid- or late 1990s.<sup>77</sup>

In 2013, 35% of sole parents had full-time jobs, which is low by international standards.<sup>78</sup>

### The significant effect of fluctuations in economic activity

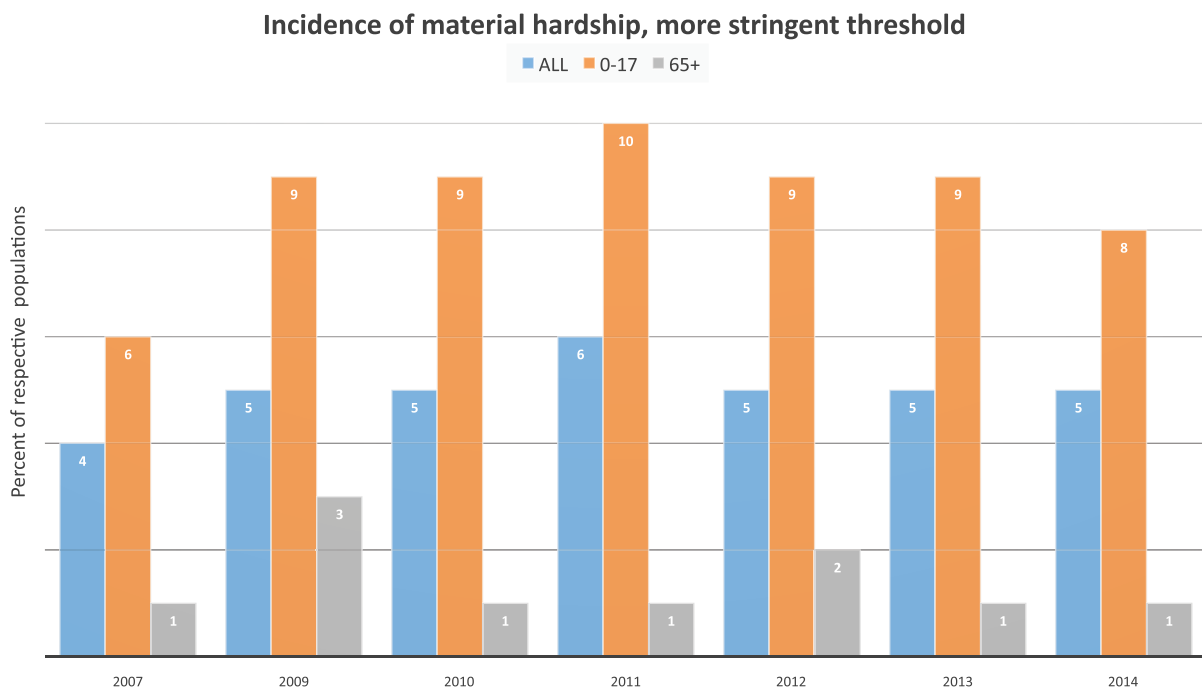
Fluctuations in unemployment rates have had a marked effect on measured rates of relative income poverty and material deprivation.

Hardship rates (naturally) vary with the economic cycle. Figure 6 (derived from Table 9) shows that the

global financial crisis lifted the proportion of the population experiencing 9+ degrees of hardship on DEP-17 from 2008 to 2011. The subsequent economic recovery has improved matters. Perry has noted that the fluctuations in hardship are greater for households that are more dependent on market income than for benefit-dependent households. The source document notes that changes (not shown in Figure 6) through time using the less stringent 7+ threshold show this more clearly.

Perry shows that the proportion of children in workless households rose from 12% in 1986 to 23% in 1992 (or from 15% to 28%, depending on the data series being used). During the economic downturn between 2008 and 2011, the proportion rose from 14% to 18% (or from 22% to 27%). Substantial reductions in these proportions occurred during the economic upswings that followed each of these downturns.<sup>79</sup>

**Figure 6: Hardship rates (9+ in DEP-17), 2007-14**



Source: Adapted from Bryan Perry, “The Material Wellbeing of New Zealand Households: Trends and Relativities Using Non-Income Measures, with International Comparisons” (Wellington: Ministry of Social Development, 2015), Table G.2, 59, MWI ≤ 5.

77 Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014,” op. cit., Table H.5, 125.

78 Ibid., 127.

79 Ibid., Table H.5, 125.

## The long-term importance of economic growth<sup>80</sup>

The most important long-term determinant of average wage rates is productivity growth.<sup>81</sup> Favourable or unfavourable government policies for investment in particular and labour productivity growth in general can have a major effect on future (real) wage rates.

A general rise in labour productivity growth will lift wage rates over time, reducing the incidence of poverty measures against fixed line relative income or deprivation measures. But the degree to which it does so depends on the degree to which it is skewed in favour of raising wages for unskilled labour relative to skilled labour. That may be hard to predict.

At least two arguments can be conceived against the view that higher real incomes from higher economic growth would alleviate real hardship. Neither should be given much weight. One argument says it is relative hardship that matters, not real hardship. If economic growth were to double everyone's real income in the fullness of time, the proportion experiencing hardship under the new threshold would be the same as before, even if everyone then had adequate food and housing by today's standards. It is hard to reconcile this view with real concerns about current levels of hardship. A second possible argument is that economic growth would just see the rich get richer and the poor get poorer. It is true that real wage growth does not in itself raise the incomes of those who are not working. But it is not true that real wage growth makes the working poor poorer.

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80 Eric Crampton and Jenesa Jeram, "The Case for Economic Growth" (Wellington: The New Zealand Initiative, 2015).

81 Deviations between labour productivity growth and real wage growth in New Zealand during the last 35 years were examined in a 2015 Productivity Commission report. A key conclusion was that "strong productivity growth sustains strong growth in real wages." Paul Conway, Lisa Meehan and Dean Parham, "Who Benefits from Productivity Growth? – The Labour Income Share in New Zealand," Working Paper 2015/1 (Wellington: Productivity Commission, 2015).

## 3.3 DEEPER REASONS FOR LOW MARKET INCOMES

### Factors affecting educational achievement

Home circumstances, quality of schooling, and attention given to student health problems that affect schooling are among the many factors contributing to low educational achievement.

Poor educational outcomes impair the ability to get work and achieve high wage rates. Figure 7 demonstrates the strong negative correlation between household educational achievement and child poverty. The incidence of child poverty on the 60% fixed line AHC measure is greatest (at 58%) in households where no adult has any formal educational qualification. (This 58% represents only 14% of all children living in households below this threshold.)

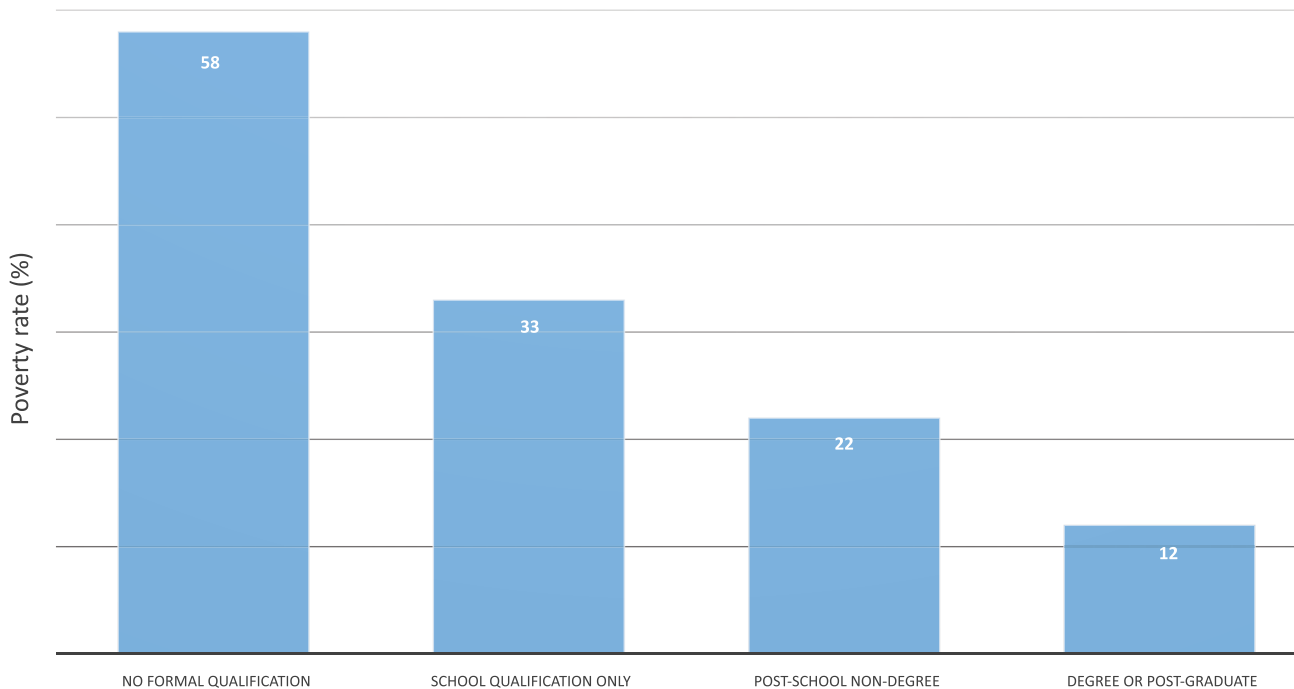
Māori are disproportionately represented among those who are relatively unqualified. Māori represented 20% of school leavers by ethnicity in 2014, but constituted 35% of those who left without attaining at least NCEA level 2.<sup>82</sup> In total, 41% of Māori leaving school in 2014 did so without achieving at least level 2. For all leavers the ratio was 23%.

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82 These statistics were derived from a spreadsheet downloaded from Education Counts, "School Leavers with NCEA Level 2 or Above," Website (Wellington: Ministry of Education, 2015). Note that because some students report multiple ethnicities, the denominator in these ratios is greater than the total number of school leavers in 2014.

**Figure 7: Child poverty rate by highest household educational qualification, 2012-14**

Averages based on fixed line AHC 60% threshold



Source: Adapted from Bryan Perry, “Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2014” (Wellington: Ministry of Social Development, 2015), Table G.6B, 113.

Adverse home circumstances may include child abuse and neglect,<sup>83</sup> lack of parental support for education,<sup>84</sup> and untended child health problems.<sup>85</sup> Variations in teacher quality and

school quality,<sup>86</sup> including bullying,<sup>87</sup> are also real concerns.

In a 2014 report, the Auckland City Mission identifies a concern that governments may be subsidising training courses that do not lead to jobs.<sup>88</sup>

Of course, intellectual capacity also differs across the population. A meaningful university education

83 In 2014, 61,000 children were notified to the authorities for care and protection reasons. Expert Panel, “Modernising Child, Youth and Family,” Interim Report (Wellington: Ministry of Social Development, 2015), 31.

84 The “Books in Homes” initiative responds to the problem Alan Duff observed when he was growing up – “hardly any Māori homes had books, nor the homes of low income white people.” Alan Duff, “Books in Homes: About Us,” Website. Of course, this initiative is likely to be less effective the greater the degree to which it addresses a symptom rather than a cause.

85 See, for example, Lance O’Sullivan, *The Good Doctor* (Penguin, 2015).

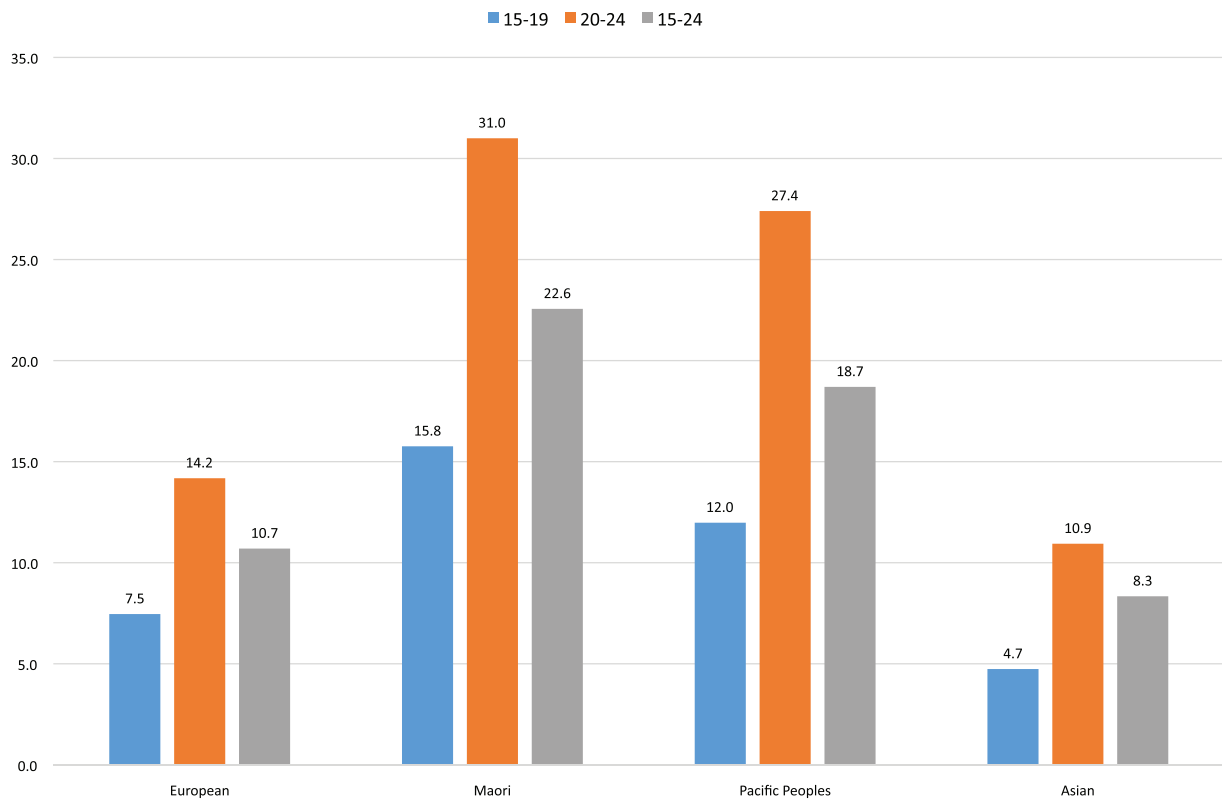
86 See, for example, the following reports: John Morris and Rose Patterson, “World Class Education?: Why New Zealand Must Strengthen its Teaching Profession” (Wellington: The New Zealand Initiative, 2013); John Morris and Rose Patterson, “Teaching Stars: Transforming the Education Profession” (Wellington: The New Zealand Initiative, 2014); and Rose Patterson, “Un(ac)countable: Why Millions on Maths Returned Little” (Wellington: The New Zealand Initiative, 2015).

87 Vanessa A. Green, Susan Harcourt, Loreto Mattioni and Tessa Prior, “Bullying in New Zealand Schools: A Final Report” (Wellington: Victoria University, 2013).

88 Auckland City Mission, “Speaking for Ourselves,” op. cit., 40–41.



**Figure 8: Average NEET rate by ethnic group, 2009-14**



Source: Statistics New Zealand, HLFS, Infoshare.

is not attainable for all. But this trite truth is no excuse for high rates of illiteracy and innumeracy.

Another point is that low educational attainment may also to some degree be the result of being in an impoverished environment as distinct from being the cause of it.

### The difficult transition from school to paid work

The difficult transition from school to paid work for those who have done poorly at school is one reason some households do not enjoy more paid hours of work.

Feedback from member agencies suggest those young people who come through are generally those who manage “moderately well in school” found training and jobs, or places at tertiary institutes and have family support. The road seems far harder for young people who struggle through school, have family issues, and have no clear pathways after school. If we add

reports of youth homelessness, couch surfing and transience, we see more clearly the reasons behind an intractable NEET [Not in Education, Employment or Training] rate for some groups of young people.<sup>89</sup>

Figure 8 provides an ethnic breakdown of those Not in Employment, Education or Training (NEET) as a proportion of the ethnic age group in each case. Māori have the highest NEET rates of the four ethnic groups, averaging 31% of the Māori population aged 20–24 during the five calendar years to 2014. It was almost as high for the Pacific population, at 27.4%. It was lowest for Asians at 10.9%, although even that ratio is disturbingly high.

A 2015 Treasury Working Paper found that those with a lengthy NEET period experienced worse outcomes in education, employment, benefit receipt, and inactivity than a control group after

<sup>89</sup> New Zealand Council of Christian Social Services, “Building Hope for Better Lives Together,” op. cit., 5.

two years. More encouragingly, there was no gap after four years.<sup>90</sup>

A less encouraging finding was that outcomes for those leaving school between the ages of 15 and 17 (i.e. before completing normal schooling) were particularly poor regardless of the length of any NEET period.

## Government regulation of labour market

Government regulation of the labour market can adversely affect the employment prospects of those with limited means or education.

In principle, a high youth minimum wage is likely to shut down job opportunities for school leavers with the worst educational outcomes. In 2008 the minimum wage for 16–17 year olds was raised from 80% of the adult minimum wage to 100%, albeit with a provision for a new entrants' wage. According to an OECD report, this effectively increased the minimum wage for this age group by 28% which research found “accounted for approximately 20–40% of the fall in the proportion of 16- to 17-year-olds in employment by 2010”.<sup>91</sup>

Regulation of occupations is extensive in New Zealand. There are at least 98 regulated occupations in New Zealand covering about 20% of the workforce.<sup>92</sup> Regulation can also shut people with the least opportunities out of jobs. The Auckland City Mission cites the case of a young mother who could not take the jobs offered to her by two childhood centres in Auckland because she “cannot be hired unless she gains a three-year

certificate in early childhood care”. Nor can she afford to take the course.<sup>93</sup>

## High effective marginal tax rates on work effort

Governments also enhance or reduce the willingness to work when they set the effective rate of tax levied on someone moving from welfare into work.

In 2012, the OECD assessed the effective tax rate for a sole parent moving to full-time employment at a low average wage to be over 80% in New Zealand, including child care costs (see Figure 9). That represents a hefty tax on work effort. New Zealand is in the top half of OECD member countries on this measure. That should be a concern.<sup>94</sup>

The Auckland City Mission also observed that those working at the minimum wage could be worse off than those on a benefit when employment costs and reduced ability to access an emergency benefit when needed are taken into account.<sup>95</sup> Virginia Dale, writing under the auspices of the Child Poverty Action Group, argues that the income gain for unemployment and sickness beneficiaries from working 15 hours a week is negligible for incomes about \$80 a week and the gains for sole parents on the Domestic Purposes Benefit (DPB) are “risible or even negative” for earned income over \$200 per week.<sup>96</sup>

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90 Anton Samoilenko and Kristie Carter, “Economic Outcomes for Youth not in Education, Employment or Training (NEET),” Working Paper 15/01 (Wellington: New Zealand Treasury, 2015).

91 OECD, “How Does New Zealand Compare,” Employment Outlook 2015 (Paris: OECD, 2015). The likely source of this research is Dean Hyslop and Steven Stillman, “The Impact of the 2008 Youth Minimum Wage Reform” (Wellington: Department of Labour, 2011).

92 See Martin Jenkins, “Review of Occupational Regulation,” Website, and Jim Rose, “At least 20% of New Zealand workers are subject to occupational regulation,” Utopia – You Are Standing In It! Blog (8 July 2014).

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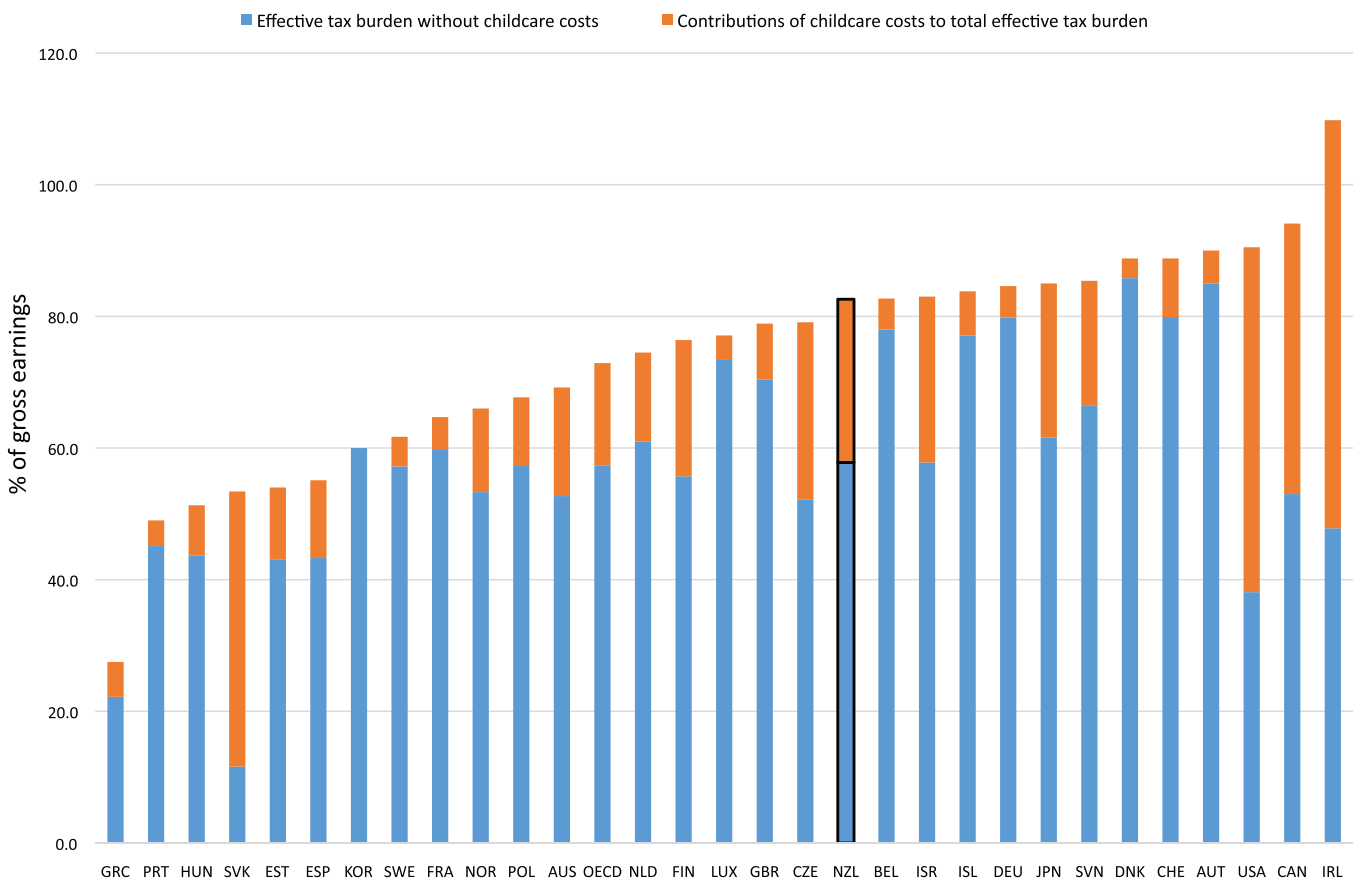
93 See “Chelsea’s Story” in Auckland City Mission, “Speaking for Ourselves: The Truth About What Keeps People in Poverty from Those Who Live It,” Family 100 Research Project (Auckland: Auckland City Mission, 2014).

94 See also Ministry of Social Development and Inland Revenue, “Effective Marginal Tax Rates for Working for Families Recipients,” Changing Families’ Financial Support and Incentives for Working, Annex Report 1 (Wellington: MSD and Inland Revenue, 2010).

95 Auckland City Mission, “Speaking for Ourselves,” op. cit., 20–21.

96 Virginia Dale, “Myths and Facts: Sole Parents and the DPB” (Child Poverty Action Group, 2013), 6. An article she cites in support notes that in 2011, the abatement rate for the unemployment benefit was 70% for income greater than \$80 a week. On page 7, she also makes the point that income-related housing rentals aggravate the ‘welfare trap’.

**Figure 9: Effective tax rate in 2011 for a sole parent moving to full-time employment**



Source: OECD, “OECD Economic Surveys: New Zealand 2015” (Paris: OECD, 2015) Paris, Figure 23

In short, low working hours across a large section of the population of working age reflect many factors. Some are outside the control of either government or the individual. Others may be caused in good part by government or by personal choices, or a combination.

### Personal employability issues

Personal factors, such as poor health and an inability to relate to other workers or adhere to workplace practices and expectations, could also restrict access to jobs paying higher wages. Auckland City Mission’s case studies show (unsurprisingly) that having a criminal record is a barrier to employment.<sup>97</sup>

## 3.4 THE ROLE OF GOVERNMENT BENEFIT LEVELS

Benefit levels matter. They can affect both material hardship and the proportion of the population falling below an income threshold that is close to existing benefit levels.

For example, Perry’s work shows that the benefit cuts in 1991 and Working for Families in 2007 had material effects on the proportions below common income thresholds. Similarly, the low proportion of the elderly in New Zealand below the various proposed poverty income thresholds reflects

<sup>97</sup> Auckland City Mission, “Speaking for Ourselves,” op. cit., 10–11.

the higher benefit rates paid to New Zealand Superannuation recipients.<sup>98</sup>

### The contribution of taxes and benefits to low disposable incomes

Current benefit and tax levels have a material effect on the distribution of disposable income across income deciles.

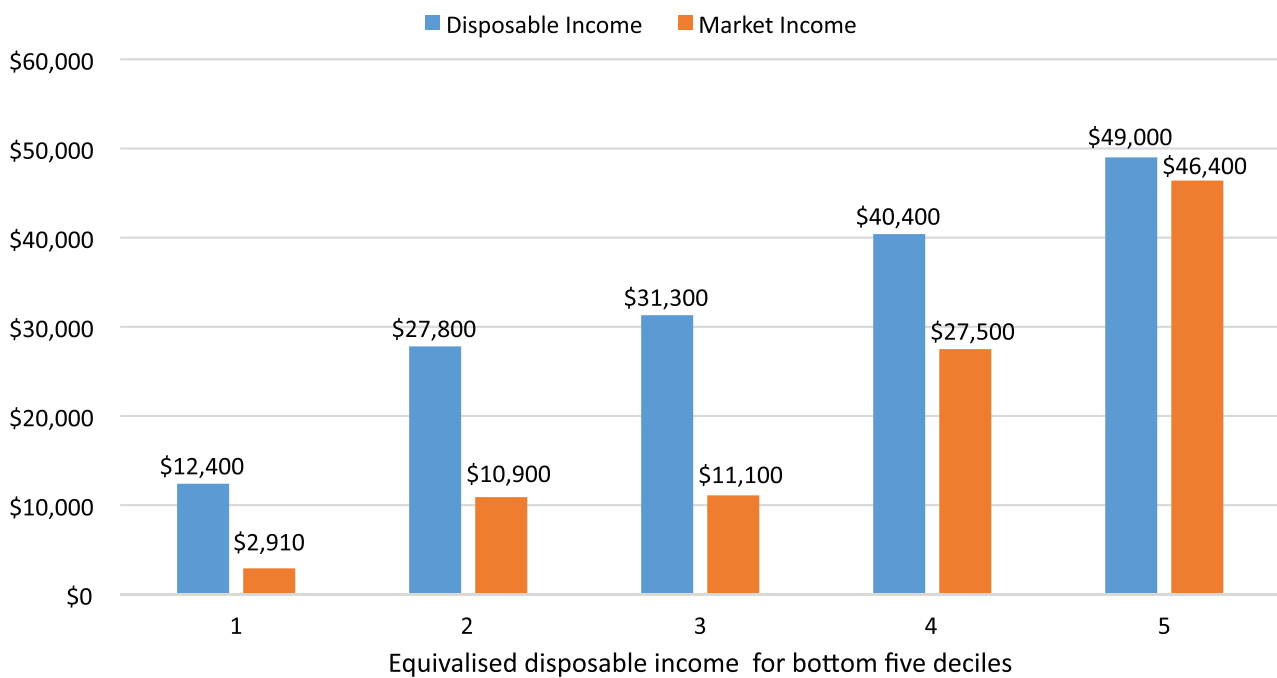
Figure 10 shows that disposable income exceeded market income on average for the bottom five deciles of the equivalised household income distribution in 2009/10. Expressed differently, cash benefits exceeded direct tax paid on average for each of these five deciles.

An important point, but one that may be less appreciated outside the economics profession,<sup>99</sup> is that the actual redistribution resulting from a tax and benefit system may be materially different from the redistribution shown in Figure 10.

The “distribution before tax” – obtainable from a statistical office’s published figures – cannot be automatically taken to be the same thing as the distribution without the tax.<sup>100</sup>

Taxes and benefits can affect relative wages, prices, savings and investment decisions, and the allocation of time and capital domestically and internationally in ways that are not readily observable. Low incomes for students while

**Figure 10: Market income vs disposable income, 2010**



Source: Based on statistics underlying Omar Aziz, Matthew Gibbons, Chris Ball and Emma Gorman, “The Effect on Household Income of Government Taxation and Expenditure in 1988, 1998, 2007 and 2010,” *Policy Quarterly* 8:1 (2012), 29–38.

98 Bryan Perry, “Household Incomes in New Zealand,” op. cit., 128, 129 and 137. Figure I.3 shows that New Zealand Superannuation has roughly held its 66% relativity to the net average ordinary time weekly earnings since 2000, but has fallen materially relative to the median equalised household income. This is in good part due to the rising median hours worked per household.

99 However, the concept of a tax-wage trade-off received popular currency in New Zealand and Australia in the early 1980s when governments thought they could reduce wage and price inflation by offering income tax cuts in lieu of higher wage rates. Lower price inflation might help retirees.

100 F.A. Cowell, “Redistribution of Income and Wealth,” in *The New Palgrave Dictionary of Economics*, (eds) Steven N. Durlauf and Lawrence E. Blume (Palgrave Macmillan, 2008), 111.

studying are different from the same low incomes at the peak of one's lifetime earning capacity.<sup>101</sup> Figure 10 does not allow for such effects.

Even so, benefits (negative taxes) indisputably financially assist those who would not work even if there were no benefit. The level of those benefits is inevitably a much contested political decision.

While most of those dependent on benefits would prefer a higher standard of living from paid work, constrained as they are by opposing forces, governments will not necessarily make it easy for them to achieve this goal. The same applies to proposals to increase benefit levels.

### Surveyed perceptions of the causes of child poverty in New Zealand

Voters' willingness to pay more or less in taxes to fund welfare benefits naturally depends in part on their perception of the causes of the situations in which people find themselves. These perceptions may or may not be soundly based.

A survey in 2014 of 1,013 New Zealanders' attitudes to child poverty commissioned by The Child Poverty Action Group produced a number of thought-provoking statistics:

- Although 80% of respondents agreed that child poverty was a problem in New Zealand, a mere 8% thought that it amounted to between 200,001 and 300,000 children. Almost a half thought the figure was fewer than 100,000.
- Opinions on the primary cause of child poverty in New Zealand were evenly divided (40% each

way) as between economic factors (including unemployment, low wages, and rising living costs) and bad parenting choices (including neglect, poor budgeting, and misplaced spending priorities (smoke, alcohol, drugs, etc.)).

- The main reasons for child poverty given by the 24% of respondents who said they personally knew of an instance of it were an abusive immediate environment (72%); high cost of living (63%); unemployed parents or caregivers (63%); and unwise spending (62%).
- In contrast, in each case only about 10% attributed child poverty to systemic failures and lack of government support (12%); uneducated parents (9%); and parents having too many children (8%).
- Compelling indicators of child poverty were lack of food, clothing and other basic essentials (97%); going to school without breakfast or lunch (93%); not being able to afford to visit a doctor (92%); and cold, damp housing (92%).

The first of these points suggests the public has not been persuaded by poverty headlines that present the extreme end of MSD's estimates as the definitive number.<sup>102</sup> We have no information as to whether the substantial proportion putting it at less than 100,000 were informed by Perry's estimates (see Table 10 for example).

The responses also indicate that, rightly or wrongly, there is a widespread view that poor parenting and unemployment are major primary causes. This may help explain the low proportion (12%) who thought inadequate government support was a key issue.

On the other hand, the responses in the last bullet point suggest considerable agreement about certain measures of material hardship – in 2008, 15% of children were in households that postponed

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<sup>101</sup> See, for example, Gilbert E. Metcalf, "Tax Incidence," in *The New Palgrave Dictionary of Economics*, (eds) Steven N. Durlauf and Lawrence E. Blume (Palgrave Macmillan, 2008); Martin S. Feldstein, "Effects of Taxes on Economic Behaviour," Working Paper 13745 (National Bureau of Economic Research, 2008); Stephen J. Entin, "Tax Incidence, Tax Burden, and Tax Shifting: Who Really Pays the Tax?" Report 04-12 on Taxes (Washington, DC: Center for Data Analysis, 2004); and John Creedy, "The Elasticity of Taxable Income, Welfare Changes and Optimal Tax Rates," Working Papers in Public Finance, Working Paper 04/2013 (Wellington: Victoria University of Wellington, 2013).

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<sup>102</sup> On 10 November 2015, the websites of the Child Poverty Action Group, the Children Commissioner's Child Poverty Monitor, UNICEF in New Zealand, and The New Zealand Council of Christian Social Services were all headlining figures above 200,000, or of the order of 24% or 1 in 5 children.

visits to the doctor in a 12-month period because of lack of money (Table 6). Concerning cold, damp housing, the household expenditure surveys in 2013 and 2014 indicated that 12% of households with children had a major problem with dampness and mould and 13% had a major problem in keeping their house warm in winter.<sup>103</sup> Artificially high land values and house maintenance costs make warm households less affordable.<sup>104</sup>

The perception in the second and third bullet points about the significance of poor budgeting and spending unwisely is understandable. The New Zealand Federation of Family Budgeting Services reports that it assisted 55,000 clients and more than 21,000 families in 2014, with only a 1,700-strong staff.<sup>105</sup> Such perceptions may not be inconsistent with the Auckland City Mission's comment that "contrary to the myth, many of those living in poverty are excellent budgeters".<sup>106</sup>

The Child Poverty Action Group has suggested that the outcomes for benefit levels and conditions for people of working age reflect "society's lack of empathy and understanding".<sup>107</sup>

Indeed they may – at least as expressed through current political processes.<sup>108</sup> William Epstein,

professor of social work at the University of Nevada, has documented the remarkable extent to which surveyed Americans, rich and poor, consider that those able to work should be working rather than depend on federal government (cash-based) welfare, and tend to view those of working age on welfare as capable of working.<sup>109</sup> In an earlier work, Epstein documented reasons for pessimism about the quality and efficacy of welfare policies in the United States.<sup>110</sup> In New Zealand, there are also grounds for concern about the long-standing inadequacy of government programmes, including welfare programmes.<sup>111</sup>

But they may also reflect different views about the relative contributions of underlying causes of low market incomes and lack of greater support from non-custodial parents. The differential between benefit levels for National Superannuation and disability does not obviously imply greater empathy and compassion for the elderly.

### 3.5 EVEN DEEPER REASONS

Research indicates that social and health issues can lead to children living in poverty. Issues include: parental separation leading to sole-parenthood; being born to a teen parent; families with a member with a chronic physical or mental health problem or a disability; families with problem debt or problem gambling; drug and alcohol abuse; having a parent in prison; family violence; and specific issues (including language barriers) faced by refugee and migrant families.<sup>112</sup>

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103 Bryan Perry, "The Material Wellbeing of New Zealand Households," op. cit., 66.

104 See, for example, Michael Bassett and Luke Malpass, "Priced Out: How New Zealand Lost its Housing Affordability" (Wellington: The New Zealand Initiative, 2013), Michael Bassett, Luke Malpass, and Jason Krupp, "Free to Build: Restoring New Zealand's Housing Affordability" (Wellington: The New Zealand Initiative, 2013) and Bryce Wilkinson, "A Matter of Balance: Regulating Safety" (Wellington: The New Zealand Initiative, 2015).

105 See New Zealand Federation of Family Budgeting Services, "About Us," Website.

106 Auckland City Mission, "Speaking for Ourselves," op. cit., 30.

107 Virginia Dale, "Myths and Facts: Sole Parents and the DPB," op. cit., 3.

108 Empathy towards starving children may have a national or international 'third world' focus. Not all donors or charitable organisations necessarily have the same priorities in this respect.

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109 Epstein, William, M. "Cleavage in American Attitudes Toward Social Welfare," *The Journal of Sociology & Social Welfare* 31:4, Article 10 (2015).

110 Epstein, William M. *Welfare in America: How Social Science Fails the Poor* (Madison, Wisconsin: University of Wisconsin Press, 1997).

111 See Minister of Finance Bill English's comments on social policy programmes in Bill English, "Speech to the Institute of Public Administration New Zealand," [beehive.govt.nz](http://beehive.govt.nz) (Wellington: 19 February 2015).

112 Children's Commissioner's Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13.

## Inherited situations, including inherited family circumstances

People cannot choose their genes, and babies and infants cannot choose their family environment. People who are brain damaged, perhaps through antenatal substance abuse or by being beaten during childhood, face an uphill battle. Low IQ, mental illness, material disability, neglect, abuse or bullying can all impair lifetime chances for a child, more or less independently of household income.

Family breakdowns fragment households, raising costs but not incomes.<sup>113</sup> The advent of the pill and broader roles for women have seen the decline of the ‘breadwinner’ model of a male earner and a full-time home mother. Such social changes have induced changes in government policies, arguably with cumulative adverse effects on family structures.<sup>114</sup>

Boston and Chapple have drawn attention to a possible connection between child hardship and mentally ill carers. The most widespread mental illnesses in New Zealand are depression and anxiety. In 2011–12, 14% of New Zealand adults had anxiety disorders, 8% mood disorders, and 4% substance disorders. British research shows sole parents are nearly three times more likely to have serious functional psychoses than couples with children.<sup>115</sup>

The extent of child abuse in New Zealand is also a real concern, and plausibly a related one. Of the children born in 1990–91, 15% had been

drawn to the attention of state agency Child Youth and Family (CYF) by age 18 because of care and protection concerns, and CYF found that 7% of that age cohort had been maltreated by age 18. The outcomes for those who have gone through state care or placement are lamentable.<sup>116</sup>

Child abuse and neglect also surely have longer-term adverse effects, although not necessarily in the form of ‘below median’ incomes as adults.

An expert panel’s interim report this year for CYF summarised the findings of research on these matters as follows:

It is impossible for an organisation or a government agency to love a child the way a family should. While the care services are an essential part of child protection, children tell us their most basic need is to be part of a family that loves and protects them. Research shows the negative impact on the development and life opportunities of children subjected to abuse, neglect or denied the love and care of family, including long-term effects of self-harm, poor mental health, drug and alcohol problems, risky sexual behaviour, obesity, and youth and adult criminal behaviour.<sup>117</sup>

## Inadequate family support

Many people are too young, old, infirm, ill or disabled to be earning an adequate living. Without adequate family support or accumulated personal wealth, hardship is likely.

It is clear that many sole parent families lack adequate support from the non-custodial biological parent. Boston and Chapple report that in 2011/12, Inland Revenue collected \$426 million in child support from 180,000 non-custodial parents.<sup>118</sup> Tables in Statistics New Zealand’s 2012

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113 “With the divorce rate rising from around 3 divorces per 1,000 married women in 1961 to a current level of around 12 per 1,000, the proportion of divorced/separated has increased from 1.7 percent of the adult population in 1956 to 9.4 percent in 1996.” Statistics New Zealand, *Demographic and Economic Influences on the Position of Women in New Zealand* (Wellington: SNZ, 1997), as quoted in Statistics New Zealand, *New Zealand Now: Incomes* (Wellington: SNZ, 1999), 18.

114 See, in particular, Patricia Morgan, “Family Matters: Family Breakdown and its Consequences” (Wellington: New Zealand Business Roundtable, 2004), Chapter 2.

115 Jonathan Boston and Simon Chapple, *Child Poverty in New Zealand*, op. cit., 232–233.

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116 These statistics have been taken from Expert Panel, “Modernising Child, Youth and Family,” op. cit., particularly 31–32.

117 *Ibid.*, 5.

118 Jonathan Boston and Simon Chapple, *Child Poverty in New Zealand*, op. cit., 170.

Official Yearbook indicate that in the year ended June 2012, \$2.1 billion was paid to 113,000 DPB recipients.

### Inadequate insurance

For adults, uninsured mischance is a choice. The untimely death of an uninsured breadwinner in a family with young children could well lead to hardship. Insurance against accident, sickness, disability and loss of earnings is prudent and can help alleviate hardship when adverse events occur. But private insurance markets do not cover all potential risks.

### Investing in family and other support arrangements

Building personal savings and support networks through strong families and associations are also choices that help guard against the mischances so intrinsic to the human condition. One's ability to build such networks depends considerably on inherited circumstances.

### Developed attitudes or social norms

Attitudes to unmarried pregnancy, marriage, adoptions, family formation, and mental illness have changed enormously since World War II.

Changing attitudes to sole parenting is an example. As the statistics in section 2.3 demonstrated, the degree of hardship in New Zealand is disproportionately due to the prevalence of sole-parent families. In 1971, only 5% of households were in this category, and the cause was most likely the death of a spouse.<sup>119</sup>

Sole parenthood in New Zealand grew rapidly in the late 1970s and 1980s, the number of sole parents increasing by a third between each five-yearly census. Relationship breakdown was the main factor driving the growth in sole parenthood, evidenced by rising divorce rates and growing

numbers of separated and divorced sole parents. A second contributing factor was an increase in the number and proportion of pregnant single women who did not marry or place their child for adoption.<sup>120</sup>

On a more optimistic note, the proportion of families headed by a sole parent fell from 18.9% in 2001 to 18.1% in 2006 and 17.8% in 2013.<sup>121</sup>

This is not to say that all the diverse groups in the community think the same way about such matters. A recent survey of opinions in the community by Arthur Grimes et al. found that even when controlled for differences in income, education and employment status, Māori are more likely than non-Māori to believe, among others, that “(1) the poor have been unfairly treated and are not lazy; (2) a better life is due to luck and not hard work; (3) the Government is doing too little for those in need”.<sup>122</sup> They are also more likely to oppose abortion and to believe parents should be always respected regardless of their faults.

To the degree that expectations are self-fulfilling, a relative lack of faith in the efficacy of hard work could be detrimental to work effort and, thereby, income.

The Children's Commissioner's Expert Advisory Group's report also pointed out that Māori hardship has a long history of colonisation, land confiscation, racism and discrimination.<sup>123</sup> This legacy is surely a relevant factor, affecting both current attitudes and non-Māori guilt in double-edged ways from a longer-

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119 Jo Cribb, “Focus on Families: New Zealand Families of Yesterday, Today, and Tomorrow,” *Social Policy Journal of New Zealand* 35 (2009), 4–16, 7.

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120 As quoted in Ministry of Social Development, “Sole Parenting in New Zealand: An Update on Key Trends and What Helps Reduce Disadvantage” (Wellington: MSD, 2010), 14.

121 Statistics New Zealand, “2013 Census QuickStats about Families and Households” (Wellington: SNZ, 2014), 6.

122 Arthur Grimes, Robert MacCulloch and Fraser McKay, “Indigenous Belief in a Just World: New Zealand Māori and other Ethnicities Compared,” Motu Working Paper 15–14 (Wellington: Motu Economic and Public Policy Research, 2015).

123 Children's Commissioner's Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 13–14.



term perspective. Failures to respect property rights can cast a long shadow.

Lifestyle choices are also important. Attitudes to food and obesity can affect health, and thereby, hardship. Although statistics show strong differences in obesity rates across ethnic groups, there is some evidence that socioeconomic factors are relevant. The New Zealand Ministry of Health reports:

After adjusting for age, sex and ethnic differences, obesity rates among those living in the most deprived areas are almost twice as high for adults and 2½ times as high for children, compared with those living in the least deprived areas. Analyses in this report show that these disparities are even greater for extreme obesity. Both adults and children living in the most deprived areas are four times as likely to be extremely obese compared with those living in the least deprived areas.<sup>124</sup>

The same report also found that most parents do not realise their obese child is overweight.

It is somewhat incongruous to use the same word – ‘poverty’ – to describe situations of obesity and hunger. Headlines that characterise low income groups in New Zealand as suffering from hunger<sup>125</sup> also risk alienating those who are aware of the obesity statistics.

A minority of those experiencing hardship may fit the category ‘underclass’ as termed by sociologists.<sup>126</sup> The behavioural theory of the underclass postulates that the entrenched attitudes of some are not those of civil society. Undesirable behaviours include “drug-taking, crime, illegitimacy, failure to hold down a job,

truancy from school and casual violence”.<sup>127</sup> US political scientist Charles Murray used the term to distinguish those “at the margins of society, unsocialised and often violent” as distinct from the rest of the poor.<sup>128</sup>

## Fertility and hardship

One factor likely to sustain, if not increase, the incidence of child hardship is the tendency of those of working age and on benefits to have further children they cannot support independently. Of course that does not mean that most do. Virginia Dale of the Child Poverty Action Group reports that less than 25% of people depending on the DPB give birth to, or become the sole caregiver to, more children “over time” and that roughly 6% of these have two or more children on a benefit.<sup>129</sup>

A Cabinet paper in 2012 observed:

A significant number of sole parent beneficiaries give birth to additional children while on a benefit. In 2010, 4,800 new borns (7.5% of all live births) were included in the benefit of an existing Domestic Purposes Benefit client. The on-benefit birth rate has trended up since 1997, from under 35 births per 1,000 women receiving Domestic Purposes Benefit-sole Parent in 1997 to over 50 per 1,000 women receiving DPB-SP in 2010.<sup>130</sup>

These calculations exclude those who were not on a benefit before birth but quickly become benefit dependent. They also exclude those who are on a benefit other than the DPB (now known as Sole Parent Support) following childbirth. Lindsay Mitchell reports that “around 20 percent of the

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124 Ministry of Health, “Understanding Excess Body Weight: New Zealand Health Survey” (Wellington: New Zealand Government, 2015), 33.

125 See, for example, the child poverty monitor infographic at <http://www.childpoverty.co.nz/>.

126 Wikipedia, “Underclass,” Website.

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127 David Green, “Foreword (1990 edition),” in Charles Murray, *Charles Murray and the Underclass: The Developing Debate*, Choice in Welfare 33 (London: The IEA Health and Welfare Unit, 1996), 19.

128 Charles Murray, *Underclass +10* (London: Civitas, 2001), 2.

129 Virginia Dale, “Myths and Facts: Sole Parents and the DPB,” *op. cit.*, 3.

130 Ministry of Social Development, “Welfare Reform: Parents on Benefit Who Have Subsequent Children,” Cabinet paper C (Wellington: MSD, 2012), para 12.

children born each year – it fluctuates slightly according to the state of the economy but not significantly – are welfare dependent by the end of that year. Some go directly onto a benefit; others shortly thereafter.” For Māori the proportion is 35–37%.<sup>131</sup>

Mitchell also reports that, of the caregivers adding a child of less than one year to a benefit in the six months to March 2014, half were Māori, 26% NZ European, and 12% Pacific Islanders. Seventy-two per cent of these caregivers were under age 30. Over a quarter of those receiving the Youth Payment/ Youth Parent Payment added a baby. In most cases, the newly born were added to Sole Parent Support.<sup>132</sup>

On the other hand, around one-third of those on the DPB at any time move off the payment the next year “largely for work or new relationships”.<sup>133</sup>

The potential importance of the quality of the personal choices made by those capable of making them is illustrated by a US study in the 1980s that found that those who are poor but manage to conform to the following strictures “are very seldom counted among the persistently poor:

- complete high school
- once an adult get married and stay married (even if not at the first try)
- stay employed, even if at a wage and under conditions below one’s ultimate aim”.<sup>134</sup>

Teenage births are undoubtedly a potential source of persistent poverty. Happily, the teenage birth rate in New Zealand has declined to 19 per 1,000

from a peak of 69 per 1,000 in 1972. The Māori rate peaked at 140 per 1,000 in 1966 and is now down to 47 per 1,000.

## Government housing and indirect tax policies

Government policies other than welfare and labour market policies can reduce or increase hardship.

Policies that raise costs relative to incomes could aggravate hardship. Well-meaning policies that set ever higher standards for housing or restrict its supply potentially make it harder for low income families to afford other things. Punitive taxes on cigarettes and alcohol may affect lower income groups disproportionately. Tariffs on clothing, footwear and baby strollers may affect sole parent households disproportionately.

The statistics reviewed in section 2.3 show that rising housing costs since 1982 have had a material impact on the growth of household incomes after housing costs.

According to the expert advisory group’s report to the Children’s Commissioner:

The cost of housing is relatively high in New Zealand. Most low-income families cannot afford to buy their own home. Market rents, especially in the major cities, can be very high in proportion to household income. In 2011, close to 40 percent of low-income households spent more than 30 percent of their income on accommodation costs ... . High accommodation costs can lead to overcrowded homes. In addition, housing in New Zealand is generally of lower quality than in most OECD countries. Children in poverty frequently live in poor quality houses. Combined with overcrowding, this causes many health issues.<sup>135</sup>

As The New Zealand Initiative’s reports that were cited in section 3.4 have emphasised, a

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131 Lindsay Mitchell, E-mail to authors citing statistics obtained under the *Official Information Act 1982* (8 June 2015).

132 Lindsay Mitchell cites statistics obtained under the *Official Information Act 2015*. See Lindsay Mitchell, “Adding children to an existing benefit – numbers rise,” Blog (16 July 2014).

133 Virginia Dale, “Myths and Facts: Sole Parents and the DPB,” *op. cit.*, 6.

134 Michael Novak, “The New War on Poverty,” *Focus* 11:1 (1988), 6–10, 9.

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135 Children’s Commissioner’s Expert Advisory Group, *Solutions to Child Poverty in New Zealand: Evidence for Action*, *op. cit.*, 13. For over-crowding, see also Auckland City Mission, “Speaking for Ourselves,” *op. cit.*, 14, 15, 25.

core problem is an artificial shortage of land for housing manifest in much higher land values relative to building costs in some areas, notably Auckland. The Crown is responsible for regulations controlling the supply of land for housing and is the only entity that can address this regulatory problem at source. As the largest single landlord in the country with a focus on providing low income housing, the Crown is also directly responsible for the condition of that housing.

### 3.6 CONCLUDING COMMENTS

Changing attitudes to family formation, marriage, divorce and abortion are surely factors in the rise of sole parent households with children, where the incidence of hardship is greatest. But there are

many other ways households can find themselves under severe stress and dependent on the help of strangers.

Low market incomes due to a combination of low market wages and inadequate working hours point to problems variously of low skill levels (with low educational achievement being a factor), lack of work experience, access to paid work and inadequate economic growth through productivity growth. A considerable number of factors could be making it hard for those who are at the margins of the workforce to get higher market incomes.

Governments are pulled in different directions at once by different interest groups. As a result, their regulatory and other policies can variously help or hinder those experiencing relative hardship.

THE  
NEW ZEALAND  
INITIATIVE



# FOUR

## EVOLUTION OF INSTITUTIONAL ARRANGEMENTS FOR ALLEVIATING POVERTY IN NEW ZEALAND

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Before the nationalisation of welfare, responsibility was divided three ways: there was, first, individual or family responsibility; second the community as distinct from the state; and third, the government.<sup>136</sup>

### 4.1 INTRODUCTION

This chapter briefly reviews the history of the institutional arrangements for preventing and alleviating poverty. It identifies the twin issues that all arrangements face and none can deal with to everyone's satisfaction – adverse selection and moral hazard.

This chapter is not about public policy, except to the degree where it has clearly influenced the evolution of private arrangements, which it considerably has.

### 4.2 ARRANGEMENTS OVER THE MILLENNIA

#### Risk-pooling mechanisms

People have sought to prevent and alleviate poverty through risk-pooling mechanisms throughout history. The need has always existed because people have always been maimed, crippled or killed by acts of nature, sickness, accident, war and violence.

Naturally, and inevitably, they have adopted diverse mutual support arrangements. Family support is the first line of defence – except for the most dysfunctional families. Mutual support through voluntary associations such as guilds, masons, friendly societies, and other workers' organisations echo through the centuries. Insurance arrangements for protecting against impoverishing events precede Christianity.

#### Charitable mechanisms

Failing family support, mutual organisations, and insurance policies, there is a role for public welfare agencies and private charitable organisations in alleviating poverty. Parishes, monasteries, churches, religious orders, benevolent societies, and other non-government organisations have offered relief and support in varying degrees over the centuries.

#### Ineliminable role of government – and wider roles

Governments have always underpinned private arrangements. Governments are responsible for setting and enforcing the laws of the land and responding to national emergencies, disasters, and war-time deaths and injuries. Governments can also supplement or displace the provision of private assistance through government-funded programmes, perhaps of a 'social insurance' nature. Since Bismarck's time at least, governments have commonly provided for the pension and health needs of returned soldiers.

Ideas of the proper role for state provision vary wildly from zero (anarchy) to the communist extreme of no private means of support. In New

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<sup>136</sup> David Green, "From Welfare State to Civil Society: Towards Welfare that Works in New Zealand" (Wellington: New Zealand Business Roundtable, 1996).

Zealand, the concept of a ‘cradle to grave’ welfare state was enshrined with the passing of the *Social Security Act 1938*.<sup>137</sup>

### 4.3 TWIN DILEMMAS FOR RISK-POOLING AND CHARITABLE ARRANGEMENTS

All risk-sharing arrangements, public or private, with the family or outside it, have to guard against two kinds of free loading: adverse selection and moral hazard. Adverse selection occurs when those who are most at risk disproportionately join a risk-spreading scheme on the same terms as other members. Moral hazard occurs when insured people take less care to avoid adverse events than they would if uninsured. For example, they might take less care to lock their car or to live a prudent and disciplined life.

Arrangements vulnerable to adverse selection are likely to be unsustainable if low risk members can opt out. Private insurers have to design products that guard against both adverse selection and moral hazard, since both activities effectively tax their most-desired customers.

Governments desiring to make hidden cross-subsidies sustainable may make membership compulsory at premium levels that subsidise higher risk cases. Hidden cross-subsidies may be better politically than transparent subsidies through the tax system.<sup>138</sup>

Similarly, public welfare agencies and private charities have to balance compassion with the need to guard against fraud and to reward the virtues of civil behaviour, self-reliance and

independence.<sup>139</sup> A satisfactory balance between these considerations has yet to be found. Even the hopes of finding one are slim.

### 4.4 VICTORIAN VALUES IN NINETEENTH-CENTURY NEW ZEALAND

#### Settler philosophy of self-reliance

David Thomson, history professor at Massey University, characterises nineteenth-century New Zealand as opposing more than any other Australasian colony an active government role in income support. New Zealand’s colonial community was marked by a “deliberate attempt” to maximise individual, family and neighbourly arrangements.<sup>140</sup> “Victorian notions of independence, self-help, thrift and family responsibility enjoyed wide support”.<sup>141</sup>

#### But not without residual central authority responsibility

Initially, the New Zealand Company and its successors were responsible for guaranteeing work and arranging support if private employment failed.<sup>142</sup> Later, provincial governments had some welfare responsibilities.<sup>143</sup> New Zealand’s first significant poverty relief law was the 1846 Destitute Persons Relief Ordinance. ‘Near relatives’ were legally liable to support a destitute person. Local justices of the peace and later magistrates would “determine who was destitute and who must assist ...” The definition of destitution was strict (i.e. narrow).<sup>144</sup>

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137 New Zealand History, “Social Security Act Passed” (Wellington: New Zealand Government, 14 September 1938).

138 Pay-as-you-go tax-funded compulsory schemes targeted to benefit low income groups create additional difficulties.

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139 See, for example, Comptroller and Auditor-General (UK), “International Benchmark of Fraud and Error in Social Security Systems” (London: National Audit Office, 2006).

140 David Thomson, *A World Without Welfare: New Zealand’s Colonial Experiment* (Auckland: Auckland University Press with Bridget Williams Books, 1998), 20.

141 *Ibid.*, 18.

142 *Ibid.*, 83.

143 *Ibid.*, 84.

144 *Ibid.*, 23.

State-funded hospitals were set up around 1846 in Auckland, Wellington, Wanganui and New Plymouth.<sup>145</sup> Between 1852 and 1876, provincial governments were responsible for general and mental hospitals and charitable aid.<sup>146</sup> From 1876 to 1885, central government provided aid to the destitute.<sup>147</sup> The first purpose-built mental asylums were opened in 1863. However, Margaret Tennant says this measure was mainly motivated by law-and-order considerations.<sup>148</sup>

### Māori mutual support arrangements

Patricia Morgan's review of customary Māori marriage arrangements acknowledges the role of wider family members. All those descended from a common ancestor were kin. The central importance of pedigree required parentage to be "well established", and "lifelong monogamy was the ideal". Biological parents were held responsible for their children's education even if other kin were directly involved. Someone of the appropriate lineage would be chosen to marry a widowed spouse or adopt an orphan – "an important form of social security where able-bodied adults frequently died in war or in childbirth".<sup>149</sup>

### Friendly societies

The colonists set up a large number of local friendly societies to provide voluntary mutual support, particularly to the sick.<sup>150</sup> The need for other forms of poverty-avoiding insurance was more limited. Settlers were typically young male, able-bodied, and fit for work.

Friendly societies differed widely in their rules and characteristics. In the early colonial decades, they were commonly tiny, consisting of "a few dozen men or less".<sup>151</sup> They had a strong focus on fostering civil and virtuous behaviour.<sup>152</sup>

Members, mainly working men, would meet regularly, and contribute funds in return for entitlements such as medical benefits, sick pay, unemployment relief, and a decent funeral.<sup>153</sup>

Their ability to select and eject members and small size permitted substantial control of both adverse selection and moral hazard. Members would visit sick members, demonstrating care and camaraderie, while constraining free loading. Members collectively supported widows and orphans, but only to a limited degree.<sup>154</sup>

However, the small number of members severely limited the size of the risk-spreading pool. Ongoing concerns about the actuarial soundness of the sickness funds of friendly societies led to a prolonged drive to achieve larger risk pools from the 1870s to the early twentieth century.<sup>155</sup>

### Risk-sharing through insurance companies

Although friendly societies dominated the insurance market for sickness, New Zealanders also had access to insurance companies to some extent from early colonial times.

The high risk of fire in colonial settlements saw settlers buying fire and general insurance cover from British companies in the early 1850s. New Zealand Insurance Company was set up in Auckland in 1859. By 1893, Auckland had 27 fire and general insurance companies. State Fire Insurance was set up in 1903.

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145 Margaret Tennant, *The Fabric of Welfare: Voluntary Organisations, Government and Welfare in New Zealand* (Wellington: Bridget Williams Books, 2007), 29.

146 Michael Bassett, *The State in New Zealand 1840–1984: Socialism Without Doctrines?* (Auckland: Auckland University Press, 1998), 69.

147 Archives New Zealand, "Charitable Aid," Fact Sheet 6 (Wellington: 2009), 1.

148 Margaret Tennant, *The Fabric of Welfare*, op. cit., 30.

149 Patricia Morgan, "Family Matters: Family Breakdown and its Consequences," op. cit., 32–33.

150 David Thomson, *A World Without Welfare*, op. cit., 36.

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151 Ibid.

152 Jenny Carlyon, "New Zealand Friendly Societies, 1842–1941," PhD thesis (Auckland: Auckland University, 2001), 61.

153 David Thomson, *A World Without Welfare*, op. cit., 36.

154 Jenny Carlyon, "New Zealand Friendly Societies, 1842–1941," op. cit., 141.

155 Ibid., 177.

New Zealand's first life insurance company, AMP Mutual, started operations in 1854. Other Australian mutual life companies followed. Government Life was established in 1869, selling policies through government post offices.

Initially, life policies paid out on the death of the insured person. Endowment policies for the insured person followed.<sup>156</sup> "From 1882, laws first encouraged, then required, employers to provide some insurance cover for employees who were injured or killed at work".<sup>157</sup>

### Pressure on governments about those who did not self-provide through friendly societies

The question of people who were not members of friendly societies or other mutual aid organisations came to a head during the long depression that started around 1879.

In 1882, colonial Treasurer Harry Atkinson introduced into Parliament a National Insurance Bill proposing a national social insurance scheme covering sickness, old age, accident, widowhood and orphans. Contributions from all citizens other than friendly society members were to be compulsory. Lack of parliamentary and public support induced Atkinson to drop the proposal in 1883.<sup>158</sup>

Auckland University historian Michael Bassett says the episode demonstrated both "a general unease" about widespread inadequate settler insurance against hard times and considerable concern that "the state should not undermine self-reliance and foster adverse selection and malingering".<sup>159</sup>

Jenny Carlyon reports that despite the 'in principle' opposition, government spending on charitable aid doubled between 1877–78 and 1884–85. Governments were finding the need for limited state support "becoming inescapable". But "[r]igorous controls were put in place to distinguish 'deserving' from 'undeserving' cases. Until the 1890s, governments had restricted their involvement in welfare provision to helping only the most deserving through charitable aid".<sup>160</sup>

Thomson observed that during the nineteenth century:

[Only a] few might be deemed destitute and deserving, and granted state assistance. The rest, the majority of the poor, would be given nothing or little, and then reluctantly and in unappealing forms, so as to emphasise the importance of working, looking out for oneself and for family, and avoiding dependence on the community.<sup>161</sup>

### Limited role of private philanthropic organisations

As Thomson observes, the notion of charitable giving to the needy enjoyed a hallowed place in Victorian virtues in the nineteenth century.<sup>162</sup> However, he does not consider that either large-scale formal charities or the more numerous "semi-formal local charities commonly centred on a church" played a major role: "The limited scope of it all stands out ..."<sup>163</sup> Few seem to have put aged care first. For example, the Salvation Army, established in New Zealand in the 1880s, focused on the "rescue of prostitutes, relief of ex-prisoners", and finding work for unemployed men.<sup>164</sup> Tennant also says "[w]omen and children were the main targets of colonial charity" of which until the 1880s at least "the main form appears to

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156 The Encyclopaedia of New Zealand, "Story: Insurance: Page 1 – Early life Insurance," Website (New Zealand Government).

157 The Encyclopaedia of New Zealand, "Story: Insurance: Page 3 – Accident Insurance," Website (New Zealand Government).

158 Jenny Carlyon, "New Zealand Friendly Societies, 1842–1941," op. cit., 184–185.

159 Michael Bassett, *The State in New Zealand 1840–1984*, op. cit., 76.

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160 Jenny Carlyon, "New Zealand Friendly Societies, 1842–1941," op. cit., 182, 208.

161 David Thomson, *A World Without Welfare*, op. cit., 89.

162 Ibid., 132.

163 Ibid., 136.

164 Ibid., 137.



have been benevolent societies based on small-scale subscriptions”.<sup>165</sup>

### The 1898 Old Age Pensions Act – A watershed expansion in the government’s role

The *Old Age Pension Act 1898* represented a “historic rupture” from the concepts of the deserving poor, contributory pension schemes, and the primacy given to self-reliance. It granted a legal right to a pension from age 65 on the grounds of poverty and New Zealand residence, to be paid from general taxation.<sup>166</sup> Thomson attributes this role shift, in part, to a fourfold increase in those aged over 65 between 1881 and 1891.<sup>167</sup>

## 4.5 1900–50 – VISIONARY “CRADLE TO GRAVE” STATE WELFARE

### Role of the union movement and organised labour

The establishment and formal recognition of trade unions was a contentious matter in the twentieth century in many countries, including New Zealand. Trade unions naturally focused on the welfare of their members in terms of pay and conditions of workers.

The *Industrial Conciliation and Arbitration Act 1894* legally recognised trade unions, and made New Zealand the first country in the world to make compulsory state arbitration of labour disputes.

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165 Margaret Tennant, *The Fabric of Welfare*, op. cit., 35.

166 Lindsay Mitchell, “Māori and Welfare,” Te Oranga o te Iwi Māori: A Study of Māori and Economic Progress, Working Paper 5 (Wellington: New Zealand Business Roundtable, 2009), 11.

167 David Thomson, *A World Without Welfare*, op. cit., 155. Margaret Tennant saw the Act as signalling “the beginning of a change from the prevailing ethos of self-help, independence and thrift.” Margaret Tennant, *The Fabric of Welfare*, op. cit., 208.

### Formation of the National Provident Fund in 1910

The National Provident Fund (NPF) was set up as a voluntary contributory scheme, state guaranteed and subsidised, to provide pensions from age 60, and benefits in the event of sickness, maternity, widowhood and orphanage. This threatened the sickness role of friendly societies.

### Voluntary charitable organisations

Voluntary organisations funded largely by charitable donations grew in significance from the late nineteenth century into the 1930s, fuelled by recession, war and depression.<sup>168</sup>

### Political tide turns against friendly societies in the 1930s

Slow to respond at first, friendly societies soon realised that the NPF’s activities represented a serious competitive threat. It took them until 1916 to reach a compromise with the government and improve their position.<sup>169</sup>

By the 1930s, friendly societies had become substantial organisations, “effectively providing health insurance to 20% of the New Zealand population”.<sup>170</sup> Carlyon comments:

The service they provided was invaluable and wide-ranging – funeral funds, sick benefits, medical and hospital benefits, funds to help widows and orphans, UFS pharmacies and medical institutes and a whole range of ad hoc benefits to meet significant needs.<sup>171</sup>

However, the development of widespread unemployment and poverty during the Great Depression in the 1930s demonstrated the limits of private charitable arrangements in extreme

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168 Productivity Commission, “More Effective Social Services” (Wellington: New Zealand Government, 2015), Section 2.2, 39–40.

169 Jenny Carlyon, “New Zealand Friendly Societies, 1842–1941,” op. cit., 192–207.

170 Ibid., 181.

171 Ibid., 246.

circumstances that cause distress far beyond their members' reach.

The *Social Security Act 1938* saw the state usurp the role of friendly societies by providing a universal 'social insurance' scheme. It made no meaningful provision for friendly societies.<sup>172</sup> Membership went into a long decline from 113,709 in 1938 to 74,991 in 1950 and beyond.<sup>173</sup>

## 4.6 1950-2015 — A SWINGING PENDULUM

The Productivity Commission reports that direct government provision of social services and support for not-for-profit social service organisations grew during the 1950s. This support largely took the form of grants, training and subsidised rent and office costs.<sup>174</sup> In 1968, government spent \$4 million on social services, representing 0.7% of total government spending.

Policy views favouring an expansionary role for the state continued to the mid-1970s. In 1972, the Labour Government introduced a state monopoly accident insurance scheme for personal injuries caused by accidents. This reduced the role for private insurance.

In the late 1980s and 1990s, government support for not-for-profit social service providers became contract focused rather than grant focused.<sup>175</sup> This more directive approach markedly affected state-funded private charitable organisations.<sup>176</sup> Tendering for contracts became common and

many organisations came to depend on winning government contracts.<sup>177</sup>

New Zealand today has "a strong non-profit sector, with rich historical traditions" that is growing in importance.<sup>178</sup> For example, the Southern Cross Healthcare Group, which started in 1961, has more than 800,000 members and last year treated 65,000 patients through its network of private surgical hospitals.<sup>179</sup> Another example of increased activity, albeit involving government, is the growth of Māori kin-based organisations.

Total spending by the sector in 2004 amounted to \$9.8 billion, of which a third was the value attributed to volunteer labour. Total full-time equivalent employment was 200,605 persons, which was only 20% short of the comparable figure for manufacturing. Relative to the workforce overall, this employment rate was the seventh highest among 41 countries.<sup>180</sup>

Only about 25% of the sector's revenue took the form of government support. Another 20% came from private donations. The major source of revenue was sales and other income, including investment income.

Private philanthropy amounted to 1.1% of GDP, which was higher than in other Anglo Saxon countries. This figure includes donations in New Zealand from community trusts, energy trusts, and gaming machine trusts, which totalled 0.2% of GDP.

Even so, central government is a much larger player, spending around \$34 billion a year on health, education and other social services. Most is spent on education, hospitals and government departments, with a much smaller portion used

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172 New Zealand History, "Social Security Act Passed," op. cit.

173 Jenny Carlyon, "New Zealand Friendly Societies, 1842-1941," op. cit., 245.

174 Productivity Commission, "More Effective Social Services," op. cit. 40.

175 Ibid.

176 See, for example, the cartoons in Margaret Tennant, *The Fabric of Welfare*, op. cit., 192-193.

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177 Productivity Commission, "More Effective Social Services," op. cit., 40.

178 Jackie Sanders, et al., "The New Zealand Non-profit Sector in Comparative Perspective" (Wellington: Office for the Community and Voluntary Sector, 2008), 3.

179 Southern Cross, "About Us," Website.

180 Jackie Sanders, et al., "The New Zealand Non-profit Sector in Comparative Perspective," op. cit., 11-12.

to purchase services from non-government organisations.

Central government appears to provide proportionately greater support to charitable social service providers. The Productivity Commission reports that government funding for such providers was about \$3.3 billion in 2013, constituting about 50% of their income. That implies a total income excluding the revenue implicit in volunteer labour of about \$6.6 million – and a considerable ability by government to use contracts to dictate the focus of the major players in the sector, and in that sense the sector as a whole.<sup>181</sup>

## 4.7 CONCLUDING COMMENTS

This chapter does not support any view that voluntary insurance and benevolent institutions in New Zealand could develop to an extent that would make government welfare unnecessary in the eyes of the electorate. Both have always had a role to play in the past and will continue to do so in the foreseeable future.

Certainly private insurance and mutual support arrangements outside the family unit have helped guard those who took advantage of them against some – but far from all – adverse contingencies. Benevolent societies existed in nineteenth and twentieth century colonial New Zealand. But their ability to help those who were not members of friendly societies and other mutual associations was too limited to cope with major swings in economic circumstances. So voters allowed the state to step into welfare support gradually but reluctantly.

Nor was there ever a starting point to colonial arrangements that saw a central authority with

no welfare role. Even the Wakefield settlements provided assurances by the promoters that expectations relating to settlement circumstances and opportunities would be met.

Pre-colonial Māori society did, of course, have its own mutual support arrangements based on kinship and hierarchy. This topic could be a chapter or a book in its own right, and a very interesting one.<sup>182</sup> But time and resources have put it beyond the scope of this report.

Communities have used both private and state institutions to prevent and alleviate poverty in New Zealand since colonial times. This co-existence will continue, but there is scope for their relative roles to change at least at the margins.

Even so, it is hard to imagine that the swing in less than one hundred years from strong opposition to state involvement in poverty relief in the mid-nineteenth century to universal ‘cradle to grave’ state welfare by the late 1930s could be repeated.

The rising role of the state saw a parallel diminishing role of friendly societies. Fortunately, the resilient philanthropy scene in New Zealand did not eliminate them.

Dissatisfaction with the outcomes of heavy state spending and provision of ‘social insurance’ has led some governments in recent years to boost private social insurance providers through contracts focused on producing outputs, and recently on outcomes. These developments and better use of Internet technologies and social networking can increase the role of vibrant private sector initiatives (see The New Zealand Initiative’s report on Social Impact Bonds<sup>183</sup>).

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181 The Productivity Commission also reports that only 39% of the 73,000 providers get some funding from government and that 40% of government funding goes to just 32 large providers. But note that volunteer labour is a major resource available to this sector. Productivity Commission, “More Effective Social Services,” op. cit., 45.

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182 For an interesting commentary and perspective, see Jackie Sanders, et al., “The New Zealand Non-profit Sector in Comparative Perspective,” op. cit., Chapter 4.

183 Jenesa Jeram and Bryce Wilkinson, “Investing for Success: Social Impact Bonds and the Future of Public Services” (Wellington: The New Zealand Initiative, 2015).



# FIVE

## CONCLUDING OBSERVATIONS

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No two families coming to us are the same. Few, if any, would prefer to rely on the generosity of strangers than to be able to provide for their families by the work of their hands. No one wants the broken lives, broken relationships, broken health and broken hope that bring them to our doors, and none of those things have easy solutions. No one can click their fingers – or even pass a law – to solve at a stroke the massive complexities of living in a fallen world.<sup>184</sup>

This report has been about the state of poverty or hardship in New Zealand, the contributing circumstances, and the acknowledgment of the relevance of private insurance and benevolent institutions along with government actions.

While this report has not been about policy looking forward, the poverty terminology alone creates an association with policy that is difficult to resist. Yet premature consideration of policy action needs to be resisted. Careful problem diagnosis must precede choosing between alternative remedies.

The multitudinous contributing factors canvassed in Chapter 3 point to the need for more tailored, nuanced and multi-faceted responses.<sup>185</sup> The quality of government policies relating to housing, education, the labour market, and the net incentives embodied in the tax-welfare system for family formation, family preservation, skill attainment, and work effort are all relevant from a diagnostic perspective.

Wage rates for the least skilled tend to be higher if there is more capital employed per worker. The rate of economic growth through investment, innovation and productivity growth is a very important factor in lifting real wage rates in the long run.

While many see greater taxpayer spending via government along with more directive government regulation as an important part of any remedy, the survey of public opinion reviewed in section 3.4 suggests that many voters have yet to be persuaded.

It is tempting for those advocating greater fiscal redistribution to see voters who are unpersuaded as lacking empathy. Nevertheless, many voters are likely to put the needs of their own children, for example, ahead of those of strangers in or outside New Zealand. Their need to be persuaded that more redistribution from them to others is desirable is understandable.

From this perspective, the practice of some advocacy groups of headlining extreme estimates, such as 1 in 4 New Zealand kids being in poverty, risks being counter-productive.<sup>186</sup>

A related potential communication trap for those advocating more income redistribution across the board is to present cases of material hardship as representing the situations of all those falling below a standard income threshold, when on MSD's facts this is not the case.

Similarly, arguments that do not acknowledge a role for personal choice or poor management may fail to connect persuasively with the apparently widespread belief that such aspects do play a material role.

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<sup>184</sup> Jennie Pollock, "A day in the life of Vauxhall Foodbank," Blog.

<sup>185</sup> The EAG's report stressed the need for an effective strategy to be "comprehensive in nature and tackle a range of issues." Children's Commissioner's Expert Advisory Group, *Solutions to Child Poverty in New Zealand*, op. cit., 14.

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<sup>186</sup> Kieran Madden points this out in "How Hyperbole Hurts the Poor" (Auckland: Maxim Institute, 2014).

Another possible point of difficulty between advocates and unconvinced voters is that the more a Third World-type issue of hunger is stressed, the greater the disjuncture with concerns about the extent of obesity among lower income groups in New Zealand.<sup>187</sup>

The experts are right to rebut mistaken views about the extent to which those experiencing hardship really had much real choice about the matter and the degree to which they really can extricate themselves from their predicament without help.

But less emotive language could be less polarising. It is not necessary to use the word ‘poverty’ to diagnose and assess the hardship being caused by excessive housing costs, poor quality housing, inadequate levels of education, undue barriers to jobs, and the host of other

considerations identified in this report. Good solutions to these problems could and should be identified regardless of the language used.

Overall, it is hard not to have sympathy with the Minister of Finance’s view that the state sector does not have a monopoly on ideas for achieving better outcomes. In particular, Māori leaders and innovators must be involved given the incidence of hardship in that ethnic group.<sup>188</sup> Moreover, the wide range of circumstances contributing to hardship imply that a successful strategy must involve a multi-faceted response. Private initiatives can help provide that.

While this report has not been about public policy looking forward, it has inevitably included material that is suggestive. That material will be taken forward in a future report on government policy on poverty alleviation in New Zealand.

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187 Shabnam Dastgheib, “Obesity is ‘a symptom of poverty,’” *Sunday Star Times* (17 August 2014).

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188 See, for example, Simon Collins, “Tuhoe: Let us run schools, healthcare, welfare, housing,” *The New Zealand Herald* (18 November 2015), and David Moore, Graham Scott, Rebecca Drew, Joanna Smith and Claire Whelen, “Decentralising Welfare – Te Mana Motuhake O Tuhoe,” Report to the Ministry of Social Development by the Sapere Research Group (Wellington: Ministry of Social Development, 2014).

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Are more than a quarter of a million New Zealand children living in poverty? Big numbers make shocking headlines, and invite questions about New Zealanders' empathy.

This report argues that such claims are hyperbolic and are potentially counter-productive in influencing public opinion. Ministry of Social Development estimates show that different measures of poverty yield markedly different results. Fewer than half of children in households experiencing such relatively low incomes are also experiencing material hardship under the 'standard' European Union deprivation measure. Moreover, some children in higher income households are experiencing such material hardship.

Even so, far too many children, and indeed adults, are living in miserable circumstances, despite massive efforts and spending by well-meaning and untiring public and private organisations. However, as public opinion appears to appreciate, earned income can be low relative to expenses for many reasons, from unlucky circumstances to poor choices. Low earned income and unaffordable housing can be caused in part by government policies that limit access to jobs and quality education, that unduly raise housing costs, or that hold back productivity growth.

Problems of such complexity emphasize the need for nuanced responses, based on specific knowledge of individual circumstances, by both government and non-governmental bodies.

This report outlines the state of poverty in New Zealand, providing the basic facts and tracing out the history of government and private support for preventing and alleviating hardship. It will form the basis for The Initiative's coming report on welfare policy.

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