

SPOTLIGHT ON POVERTY



TE TAPEKE
FAIR FUTURES
IN AOTEAROA

ROYAL
SOCIETY
TE APĀRANGI

Royal Society Te Apārangi has convened a diverse, multidisciplinary panel* to examine issues of fairness, equality, and equity in Aotearoa New Zealand. The spirit with which the panel is approaching its work on fairness in Aotearoa is Te Tapeke, from ‘ka tapeke katoa te iwi’.[†] This concept of inclusion conveys the importance of valuing and including all people. The panel’s task is to identify and highlight some of the important choices New Zealanders face in determining how to shape te tapeke fair futures in this country.



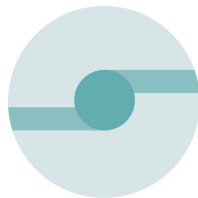
* royalsociety.org.nz/fair-futures † Joshua 4:11–13. ‘Including all people, without exception’.

TE TAPEKE

The inclusion, leaving no one out.

KORU

Two jointed koru spirals:
one depicts new beginnings, life and hope;
the other a point of balance, a state of harmony in life.



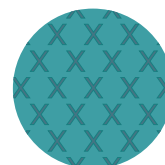
TUKUTUKU

Two contemporary tukutuku designs:



Mūmū

represents
alliance, your move,
my move.



Purupuru Whetū

the stars and
the great people
of our nation.

RĀRANGI UPOKO

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¹ It is beyond the purpose, intention, and resources of the panel to provide a complete and comprehensive review of policy and analysis in these areas in Aotearoa New Zealand.

² The panel acknowledges that Aotearoa New Zealand is, by many metrics, a desirable place to live and often a sought-after destination for immigrants.





HE TĪMATANGA KŌRERO INTRODUCTION

In the 1930s, the founders of the welfare state in New Zealand envisioned a country – and a world – where all citizens would not only be free of abject poverty, but also where relative poverty would be greatly reduced. In such a world, every person, regardless of age, gender, ethnicity, or occupation, would be able to participate fully in their society and have a sense of inclusion and belonging.

This vision has yet to be realised. Globally, despite substantial economic growth over much of the post-World War II era, significant abject poverty remains within many low-income countries. In New Zealand, the available evidence suggests that significant rates of relative poverty exist, although these have varied over time depending on policy settings and economic conditions. The evidence also suggests that certain groups have suffered disproportionately. These include families with children, Māori, Pacific peoples, those receiving social assistance, and those with disabilities.

This paper explores the nature of poverty, how it is measured, why it matters, and what can be done to reduce it – ensuring a fairer future for all New Zealanders.

This spotlight is one in a series of papers by Te Tapeke Fair Futures panel that considers a range of important public issues through a fairness lens.¹²

MATAKITE ME TE ARONGA A TE RŌPŪ KŌRERO

PANEL VISION AND APPROACH

In the view of Te Tapeke Fair Futures panel, living in poverty is neither desirable nor fair. Accordingly, the panel believes that New Zealand should aspire to achieving poverty rates for all population groups that are among the lowest in the 38 countries of the Organisation for Economic Co-operation and Development (OECD). In practical terms, this implies poverty rates comparable to – and ideally even lower than – those in Scandinavian countries.³ Depending on the measure of poverty employed, this means poverty rates well below 10% of the population and in some cases under 5%.


New Zealand should aspire to achieving poverty rates for all population groups that are among the lowest in the 38 countries of the OECD.

Such an objective is fully consistent with Target 1.2 of the United Nations' (UN) Sustainable Development Goals (SDGs). This requires governments, by 2030, to 'reduce at least by half the proportion of men, women, and children of all ages living in poverty in all its dimensions according to national definitions.' New Zealand endorsed the SDGs in 2015 and should make every effort to fulfil its international commitments.

Additionally, the panel believes that New Zealand should seek low poverty rates for *all ethnic groups*. In recent years, poverty rates (using various measures) for Māori and Pacific peoples have been at least twice those of Pākehā (Stats NZ, 2021). Such differences are morally and socially unacceptable. For one thing, New Zealand has an abiding commitment to partnership and equal citizenship rights under Te Tiriti o Waitangi The Treaty of Waitangi, as noted below. For another, building a just society requires active measures to address systemic inequities and promote the rights, interests, and wellbeing of disadvantaged groups. Accordingly, ambitious poverty reduction targets for Māori and Pacific peoples must be set.⁴

The panel recognises that achieving low poverty rates – whether, for instance, through additional income support, more comprehensive and accessible public services, or regulatory measures such as a higher statutory minimum wage – will involve additional costs to the government.⁵ This in turn implies higher overall rates of taxation.^{6,7} But the panel believes that the additional costs are justified. Reducing poverty matters. Less poverty means less suffering, anxiety, and ill health. It contributes to greater wellbeing across physical, mental, emotional, and spiritual dimensions. It also means that people are better able to develop and use their gifts, and more fully contribute to their communities, society, and the economy. Ultimately, low poverty rates benefit everyone.

Less poverty means less suffering, anxiety, and ill health. It contributes to greater wellbeing, and means that people can develop and use their gifts, and more fully contribute to their communities, society, and the economy.



³ Denmark, Norway, Sweden, Finland, and Iceland. This paper focuses on evidence-based, Nordic models because these countries have had the lowest rates of poverty (on most measures) for half a century or more.

⁴ Note that Pacific peoples have a unique place and shared histories in Aotearoa New Zealand. For instance, there are three Pacific nations, the Cook Islands, Tokelau, and Niue, which are members of the realm of New Zealand. See https://www.hrc.co.nz/files/6316/0695/6263/Talanoa_-_Human_rights_issues_for_Pacific_people_in_Aotearoa_New_Zealand.pdf

⁵ For example, as noted later in the paper, higher statutory minimum wages may increase unemployment, resulting in higher welfare costs. Higher minimum wages will also lift wages in various sectors of the economy, such as health care and elder care, where the state is either a major employer or where it funds non-governmental bodies to undertake the provision of core services. If the government does not increase its funding to compensate for these costs, there is a likelihood of reduced services.

⁶ 'Overall' here means that the government raises additional revenue through the tax system by putting some rates of taxation up. These might be either direct or indirect tax rates, and it might be that the rates apply to all those who pay income tax or only some of those who pay income tax (for example, higher income earners).


⁷ The various ways of raising additional tax revenue to fund anti-poverty measures, for example, wealth, inheritance, and transaction taxes, are not explored in detail in this paper.

TE TIRITI O WAITANGI THE TREATY OF WAITANGI

Te Tiriti o Waitangi, Aotearoa New Zealand's founding document, was signed by the British Crown and Māori in 1840. The Māori translation of te Tiriti reaffirms Māori tino rangatiratanga or sovereignty. It also promises Māori official protection, equal citizenship, and recognition of taonga treasures. Over the years, successive governments, along with the courts, have identified various crucial principles that underpin te Tiriti, such as partnership, active protection, and redress. Such principles are highly relevant to issues of poverty, especially in terms of the required policy responses. Of fundamental importance is the Māori desire for rangatiratanga authority in responding to hardship. This is linked with whānau ora, that is, Māori empowerment to provide the services necessary to meet Māori aspirations in areas including income, education, health, housing, and employment.

Poverty outcomes for Māori are markedly worse than for non-Māori (except for Pacific peoples), which is discussed later. These outcomes can be linked to the ongoing effects of European colonisation and settlement, including the taking of Māori land and resources in breach of Treaty obligations.

Poverty outcomes for Māori are markedly worse than for non-Māori (except for Pacific peoples). These outcomes can be linked to the ongoing effects of European colonisation.



This, combined with the racism embedded in various policy systems and structures, has resulted in many Māori being locked in intergenerational poverty. Recognising and putting into practice this country's commitment to te Tiriti is therefore essential to Māori achieving equitable living standards and greater wellbeing. Equally, it is important to recognise that Aotearoa New Zealand has endorsed the UN Declaration on the Rights of Indigenous Peoples. This declaration includes recognition of the special rights of Māori as indigenous to Aotearoa.



‘Ē, ko te matakahi maire.
Like a wedge of maire.’



RAWAKORĒ ME TE TŌKEKE POVERTY AND FAIRNESS

Over the years, there has been much debate about whether poverty is fair. Some people think that poverty, or at least *some* poverty, is fair; others dispute such claims. Much depends on how people interpret the relevant evidence, how they understand the nature of fairness, and which principles of fairness are given priority. Such matters, in turn, are influenced by a person's worldview, philosophical framework, and cultural values.

For instance, a te ao Māori worldview tends to be more communitarian or community oriented than the worldviews that underpin many Pākehā approaches, which can be strongly influenced by liberalism, individualism, and utilitarianism. This is reflected in the strong emphasis in te ao Māori on concepts such as whakapapa kinship, whānau family, manaakitanga duties and expectations of care and reciprocity, kotahitanga collective unity, and wairuatanga spiritual embodiment or wellbeing. Other important concepts, including He Ara Waiora,⁸ highlight pou markers that are essential for human thriving. These include mana tuku iho identity and belonging,

mana tautuutu community engagement, and mana āheinga the capability to decide on aspirations and fulfil them.⁹ Thus, a te ao Māori perspective emphasises human connectedness across the generations, interdependence, and collective responsibility.

In a diverse, pluralistic society such as Aotearoa New Zealand, there are other cultural values and traditions, including those of Pacific and Southeast Asian cultures. At a broad level, some of these have much in common with te ao Māori, others less so.

It is these differences in worldviews that help explain why people may hold contrasting perspectives on matters of poverty and fairness.

Perceptions of fairness depend on a person's worldview, philosophical framework, and cultural values.

Some people think that poverty is fair.



⁸ <https://www.treasury.govt.nz/publications/dp/dp-18-11>

⁹ See, for instance, <https://www.productivity.govt.nz/assets/Documents/Consultation-paper-A-fair-chance-for-all-v2.pdf>

Arguments supporting the proposition that poverty is fair

Claims that poverty is fair, and thus morally justified, are based on several arguments. First, it is argued that fairness involves giving people what they deserve. Such an approach to fairness, referred to as desert-based, typically involves giving priority, if not absolute priority, to non-egalitarian principles of justice over egalitarian principles (Feinberg, 1973).

There are three main desert-based principles of relevance to the topic of poverty:

- rewarding people on the basis of their *merit* (for example, their virtue and skills, whether inherited or acquired)
- rewarding people on the basis of their *contribution* (for example, to the economy or society more generally)
- rewarding people on the basis of their *effort*.

The three principles are not mutually exclusive. But if a society rewards its citizens for some combination of these attributes, then there is an obvious implication: those who are deemed to lack merit, or who failed to make a contribution, or who demonstrate insufficient effort are not deserving of reward – or at least deserve much less of any desirable good than those with more positive attributes (Sandel, 2020).

The suggestion that people are largely, if not exclusively, responsible for their own misfortune is not supported by the evidence.

Second, suppose that fairness is primarily or exclusively about rewarding people according to their deserts, rather than, say, about meeting their needs or upholding their rights. If so, then it is a relatively easy step to claim that poverty is deserved and thus fair. For instance, it might be argued that poverty is generally deserved because it is an outcome over which individuals can exercise control, that is, it is self-inflicted. It is due to bad choices rather than bad luck. Individuals are thus to blame for their circumstances. Their bad choices might include:

- demonstrating a lack of effort or poor motivation, resulting in, for example, inferior educational performance, a poor employment record, and low earnings
- choosing to work in areas of economic activity that are poorly remunerated (for example, because they make little financial contribution to the economy)

- choosing to have more children than they can reasonably afford; and
- making other bad personal choices, such as engaging in substance abuse, gambling, criminal activity.

By implication, if people make good choices, they will enjoy better outcomes for themselves and their families. In effect, therefore, people can choose whether to be poor or well-off.

Interestingly, there are some striking differences in the views of citizens in OECD countries about the extent to which poverty is self-inflicted and thus a matter of choice rather than chance. For instance, around 70% of Americans believe that the poor can exit poverty by their own efforts. Europeans, by contrast, are much more cautious about the efficacy of personal striving: only 35% agree with this proposition (Sandel, 2020, p. 23). Likewise, while 77% of Americans maintain that people can succeed in life by working hard, significantly fewer Europeans agree

(ibid., p. 74). Consistent with their belief in individual agency, the majority of Americans (57%) reject the proposition that ‘success in life is pretty much determined by forces outside our control’ (ibid., p. 74).

Third, if poverty is mostly self-inflicted (and thus deserved), governments have no grounds (at least using desert-based principles of justice) to intervene to reduce the level of poverty. Similarly, if poverty is mostly self-inflicted, government measures to reduce poverty are unlikely to be effective. Indeed, they may be counterproductive. Leaving people to suffer from their self-induced poverty may be good for society because it provides incentives for people to avoid similar circumstances. Hence, intervening to help those who are poor is likely to encourage moral hazard: it will simply increase the likelihood of people making bad choices, thereby contributing to worse outcomes.

There is an argument that if poverty is mostly self-inflicted, then governments have no grounds to intervene.

In the panel’s view, such arguments are not convincing.



Assessing these arguments

How plausible is such reasoning?

In the panel's view, such arguments are not convincing. Some brief responses must suffice.

First, there are multiple principles of justice or fairness (Barry, 2005; Lebacqz, 1976; Marshall, 2012; Miller, 1999; Rawls, 1971, 2001; Sandel, 2010, 2020; Sen, 2009; Wolterstoff, 2008). These include egalitarian principles – such as meeting a person's (basic) needs, upholding a person's rights, ensuring that everyone is treated with equal dignity and respect, and upholding other notions of equality (for example, equal treatment, equality before the law, equality of opportunity, and so on) – as well as desert-based principles. Focusing exclusively on desert-based principles is not sufficient. Indeed, a good case can be made that a just society should endeavour to satisfy citizens' basic needs before rewarding them for their merit, contribution, or effort (Feinberg, 1973).

Second, each of the three main desert-based principles is open to objections (Feinberg, 1973; Rawls, 1971; Sandel, 2020). For instance, is it fair to reward those who are highly talented if most, if not all, of their talents are inherited? Likewise, is it fair to penalise those who are born with few talents – or, indeed,

significant disabilities? In such cases, the individuals concerned are not responsible for their genetic endowments or whether these are valued by society. To be sure, a person may have exerted significant effort and thus refined and developed their inherited skills and aptitudes. But the inclination to exert effort, as well as the opportunities to do so, may also be influenced by factors outside a person's control. Hence, even the idea of rewarding effort needs caution.

The principle of rewarding people based on their contribution raises multiple problems. What constitutes a contribution to society and how should contributions be evaluated? Using market-based criteria is not adequate. After all, meeting the demands of the market is simply about satisfying a particular pattern of wants and desires and these can change rapidly (Carney, 2021). They also need to be evaluated: not all wants are equally meritorious. Hence, the idea that market-based rewards are the only measure of a person's contribution to society is deeply flawed. Aside from this, whether a person's particular skills and attributes are valued by the market, and hence what they can earn during their working life, depends on contingencies largely beyond their control.

Third, the idea that poverty is largely self-inflicted, and therefore deserved, is open to question. The available empirical evidence suggests that poverty is due to multiple factors, many of which are beyond a person's control. These include a person's genetic endowment, their family circumstances, and the educational and other opportunities available during childhood. Further, a wide range of broader socio-cultural, economic, structural, and policy factors also affect a person's life course and outcomes. To mention just a few: the degree of income and wealth inequality; the degree of social mobility; the extent of sexism, racism, and discrimination; the impact of colonisation; the structure of the labour market and housing market (which are influenced, in turn, by regulatory frameworks); the structure and level of welfare assistance; and the quality of, and accessibility to, health services.

Aside from this, upward social mobility is far more limited in many OECD countries than is often believed. For instance, despite the widely shared belief by Americans that 'you can make it if you try', the empirical evidence suggests otherwise. Children born into poor families in the US tend to remain poor in adulthood. According to various studies, only about 1 in 20 of those born in the bottom 20% of the income distribution rise to the top 20%, and

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most of those born into poor families do not even secure median incomes. Significantly, too, in the US the top 1% of the population in terms of incomes have total earnings comparable to the total earnings of the bottom 50% (Sandel, 2020, p. 73). As Sandel highlights, in such circumstances, 'the idea that effort and hard work will carry you far begins to ring hollow' (ibid.). Data show that more egalitarian societies tend to have higher rates of social mobility (Andrews and Leigh, 2009; OECD 2010). The data on social mobility in New Zealand is limited (Gibbons, 2011; Morrison, 2011). But there is little doubt that children born into poor households find it much more difficult to succeed economically than their wealthy peers.



Summary

In short, the suggestion that people are largely, if not exclusively, responsible for their own misfortune is not supported by the evidence. The situation is much more complex. Certainly, people make bad choices which can profoundly affect their life course and those of their immediate family. But focusing entirely on personal responsibility and self-help is not warranted. As one eminent poverty researcher put it, poverty is the product of ‘frequent downward tugs’ coupled with ‘restricted upward mobility’ (Krishna, 2010). A significant proportion of those who live in poverty are, to one degree or another, victims of circumstances largely beyond their control. This, of course, is undeniably true for children, but it is also true for many of their parents. Given this situation, the suggestion that governments can do little to alleviate poverty lacks substance. On the contrary, the empirical evidence, both locally and globally, points to governments playing a major role.

‘Poverty is the product of
“frequent downward tugs” coupled
with “restricted upward mobility”.’

Krishna, 2010



HE AHA TE TIKANGA O TE RAWAKORE?

WHAT DOES POVERTY MEAN?

There is a large global and local literature on the nature of poverty, including its measurement; economic, social, and psychological impacts; and the policy options for alleviation (see, for instance, Boston and Chapple, 2014; Bradshaw and Sainsbury, 2021; O'Connor, 2001; Perry, 2019a, 2019b, p. 107–127, 2021; Stephens, 2013; Stephens, Waldegrave, and Frater, 1995; Townsend, 1979). The literature highlights that poverty varies significantly in its severity, persistence, and societal impacts.

Extreme poverty

At one end of the spectrum, there is abject, absolute, or extreme poverty – or very severe material hardship or deprivation. This is where people lack some, if not most, of the basic necessities required to flourish. For instance, they are regularly hungry, if not starving; they lack adequate shelter; their access to clean drinking water is limited; and they lack good sanitation and access to health care.

Currently, the income threshold for such poverty set by the World Bank is US\$1.90 per day per capita. This is referred to as the 'International

Poverty Line'. It is based on the value of goods needed to sustain one adult. Prior to the Covid-19 pandemic, those living below this line constituted around 10% of the world's population or about 800 million people (Oxford Martin School, 2020). Covid-19 is likely to have worsened the extent of extreme poverty.

The most severe forms of poverty are largely confined to low-income countries, especially those in sub-Saharan Africa and parts of South Asia (Sachs, 2005; Oxford Martin School, 2020). Extreme poverty, including severe or chronic malnutrition, the absence of permanent shelter, and a complete lack of health services, is comparatively rare in countries like New Zealand that are members of the OECD.

Relative poverty

There are, of course, less extreme forms of poverty. These are often described as relative poverty or moderate material hardship. Relative poverty involves people falling below a minimum acceptable or adequate standard of living. For instance, they may not be able

to afford some of the goods and services that the majority of people in their society regard as essential or at least highly desirable. As a result, their capacity to belong to, and participate in, their society is constrained, and their wellbeing suffers.

Most poverty today, certainly in OECD countries like New Zealand, is relative rather than absolute poverty. Accordingly, this paper is primarily concerned with relative poverty. But while living in relative poverty is some distance from starvation, it can include significant food insecurity, ongoing energy poverty, the absence of basic household amenities (such as safe tap water, cooking facilities, and an internal toilet), severe household crowding, and homelessness, as highlighted in the panel's 'Spotlight on Housing' (see also Amore, et al., 2013; Boston et al., 2017; Carter, et al., 2010; Duncanson, et al., 2020; Parnell, et al., 2001). A small, but not insignificant, number of individuals and families in New Zealand face such challenges on a regular basis.

Box 1 (over) explains some of the ways that poverty is measured.

In Aotearoa, we think of poverty usually in terms of material hardship and relative poverty – people cannot afford some of the things that most others regard as highly desirable or even essential.

Poverty and inequality

Poverty is sometimes confused with inequality. But poverty and inequality are conceptually different and are measured separately by social scientists (Atkinson, 2015; Perry, 2019b; Rashbrooke, 2013). Poverty is essentially a threshold concept (see Box 1). It involves people falling below an agreed benchmark or standard of living. Inequality, by contrast, refers to situations where some people have more – or less – of something than other people, for example, income or wealth.

Having said this, in practice societies with big differences in income and wealth tend to have more significant levels of poverty (Atkinson, 2015). Such differences are also likely to exacerbate the intergenerational transmission of poverty and reduce upward social mobility.

While the focus here is on poverty, this does not mean that inequality is unimportant. On the contrary, there is evidence that high levels of income and wealth inequality can have a range of negative social, economic, and political impacts (Atkinson, 2015; Sandel, 2020; Stiglitz, 2012; Wilkinson and Pickett, 2009).

Societies with big differences in income and wealth tend to have more significant levels of poverty. Such differences are also likely to reduce upward social mobility.



Measuring poverty

What we want to know is ‘do people have enough resources (financial and other) to meet their needs?’ All measures of poverty are proxies for answering this. Most commonly, we look at their access to financial resources – especially their income; or at the things they go without – their material hardship.

Poverty is measured by setting explicit benchmarks or thresholds. In OECD countries like New Zealand, measuring poverty involves setting benchmarks either for household incomes or levels of material hardship. People living in households which fall below these benchmarks are deemed to be living in poverty; those above are not. Obviously, different benchmarks generate different results, as discussed later. Equally, some people living below an income-based benchmark may not be experiencing material hardship. For instance, although their income is low, they may have significant financial or other assets.

Setting benchmarks involves a range of ethical and technical judgements. Such judgements are influenced, among other things, by a

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country’s level of economic development and cultural context, as well as empirical evidence about how the needs of households vary depending on their size and composition (that is, equivalence scales). For such reasons, there is no single, universally applicable benchmark. Instead, any serious effort to assess the overall extent of poverty in a society or among particular population groups requires using a range of measures (for example, those based on household incomes and material hardship), as well as multiple thresholds.

In OECD countries, it is common for income-based poverty thresholds to be set at either 50% or 60% of median disposable household

incomes, either before housing costs are deducted or after such a deduction is made. Thresholds are set at these points in the income distribution because there is evidence that most people find it increasingly difficult to cover their basic costs, such as for food, clothing, and housing, at around these income levels.

Importantly, such thresholds are set with respect to median incomes (that is, the midpoint in the income distribution) rather than average incomes. Technically, all household incomes could be raised to, say, 50% of the median without affecting the median, thus eliminating poverty based on this threshold. Of course, what might be possible technically may be unrealistic in practice – for all manner of reasons. If average incomes were used for benchmarking purposes, raising the incomes of those at the bottom of the income distribution would affect the average (that is, unless equivalent downward adjustments were made further up the income distribution).

With respect to material hardship, a variety of thresholds can be employed (Perry, 2021; Waldegrave, Stuart, and Stephens, 1996). These involve determining how many items (based on lists of essential goods and

services) a household might lack before it is reasonable to apply the description of deprived or in hardship. Other things being equal, the more items a household lacks, the more severe the level of deprivation. Material hardship rates reflect, at least to some extent, a country's real per capita incomes. Hence, OECD countries with relatively low average living standards (that is, as measured by GDP [Gross Domestic Product] per capita) tend to have higher rates of deprivation than those with much better average living standards.

Since 2018, New Zealand has had official thresholds for measuring child poverty mandated by Parliament. These are specified in the Child Poverty Reduction Act. There are four primary measures and six supplementary measures. Both the primary and supplementary measures include income-based and material hardship measures, as discussed later.

HE AHA TE TAKE HE KINO TE RAWAKORE?

WHY IS POVERTY BAD?

Social scientists, philanthropists, and others have been researching the impacts of poverty for at least a century. There is now a vast body of empirical evidence on the topic. Drawing on this evidence, the following findings are worth highlighting.

First, poverty is generally harmful to those who are directly affected. Independent of other factors which affect social outcomes, poverty is associated with lower educational attainment, poorer employment outcomes, lower wages, poorer health outcomes, and lower levels of subjective wellbeing. Such results are found in many different countries (Atkinson, 2015; Boston and Chapple, 2014, p. 47–58; Duncan, Ziol-Guest, and Kalil, 2010; Duncan and Magnuson, 2013; Duncanson et al., 2020; Expert Advisory Group, 2012, p. 14–17; Gibb, Fergusson, and Horwood, 2012; Ladd, 2012; OECD, 2009, 2011). Poverty also contributes to a sense of shame and undermines a person’s sense of belonging to their community and their wider society. In short, poverty can negatively affect all the various dimensions of a person’s wellbeing – physical, mental, and spiritual.

Second, poverty has harmful effects on society as a whole (OECD, 2009, 2011). It tends to reduce productivity growth, curb social mobility, undermine social cohesion, and contribute to higher public expenditure and lower revenue (for example, from increased unemployment and higher demand for health services). Reducing poverty rates to low levels is thus likely to have many positive social and economic impacts.

Third, the available evidence suggests that poverty is particularly harmful when it is persistent (for example, for more than three to four years) and severe, and when it occurs during childhood, especially early childhood (Duncan, Ziol-Guest, and Kalil, 2010; Duncan and Magnuson, 2013; Expert Advisory Group, 2012, p. 14–17; Gibb, Fergusson, and Horwood, 2012; Ladd, 2012; Morton et al., 2020).

For individuals, poverty often leads to lower educational achievement, lower wages, poorer health, and generally lower levels of wellbeing. Poverty during the early childhood years can significantly affect a person’s life course.

Children in poverty in Aotearoa New Zealand had a 1.4 times higher risk of dying during childhood; and were three times more likely to suffer ill health, 1.5 times more likely to be hospitalised, and twice as likely to be admitted to hospital for acute infectious diseases.

Fourth, children who are least advantaged in terms of their socio-economic position tend to have worse outcomes compared to those who are relatively advantaged. In other words, as in other OECD countries, the outcomes that children experience in Aotearoa is affected by a social gradient. In 2012, the Expert Advisory Group on Solutions to Child Poverty in New Zealand reported that compared with their better-off counterparts, children experiencing poverty in New Zealand:

- had a 1.4 times higher risk of dying during childhood
- were three times more likely to suffer ill health, 1.5 times more likely to be hospitalised, and twice as likely to be admitted to hospital for acute infectious diseases
- were much more likely to live in homes with no heating (because there were no heaters, there was no money to use heaters, or no electricity due to unpaid bills)
- were less likely to participate fully in early childhood education and extracurricular activities
- were less likely to leave school with NCEA level 2, which is the entry-level qualification to skilled employment (Expert Advisory Group, 2012, p. 15).

More recent studies indicate the continuing relevance of this social gradient. For instance, the *Child Poverty Monitor 2020* reported that there are significant differences in the hospitalisation rates for under-15 year olds in areas with the highest deprivation scores and those with the lowest deprivation scores

(Duncanson, et al., 2020). Likewise, there is a marked gap between the mortality rates for children living in the most deprived areas and those living in better off areas.

Likewise, recent evidence from longitudinal research, such as the Growing Up in New Zealand study, underscores the damaging impacts of childhood poverty on a range of health, social, emotional, and behavioural outcomes (Morton, et al., 2020). In short, material hardship and low family incomes reduce childhood wellbeing. Importantly, too, the research of Greg Duncan and his colleagues in the US has highlighted the long reach of child poverty (Duncan, Ziol-Guest, and Kalil, 2010; Duncan and Magnuson, 2013). In other words, when controlling for other variables, child poverty can significantly affect a person's whole life course, contributing to protracted and repeated ill health, limited employment prospects, insecure housing, and persistent poverty.

Finally, a critical mark of a good, just, and caring society is that it does not abandon its least-advantaged citizens – or their dependants – to a miserable fate: social exclusion, shame, hunger, homelessness, or a premature death. No one deserves to live in significant or protracted hardship. Whether people are needy because of bad luck or bad choices, they are equally human and equally precious. To quote the Universal Declaration of Human Rights, 'All members of the human family' have 'inherent dignity' and 'equal and inalienable rights'. Accordingly, all citizens are equally deserving of compassion and public support, and are entitled to the same comprehensive set of political, civil, social, and economic rights.

**A caring society should support its least advantaged citizens.
Whether people are needy because of bad luck or bad choices,
they are equally human and equally precious.**





HE AHA TE ĀHUATANGA I AOTEAROA?

WHAT IS THE SITUATION IN NEW ZEALAND?

As in most other OECD countries, poverty rates in New Zealand differ markedly by household type, location, employment status, age, and ethnicity. They have also changed significantly over the past four decades (Boggess, et al., 1999; Boston and Chapple, 2014; Moore, 1996; Perry, 2019a, 2019b; 2021).

The available data highlight the following patterns (Tables 1, 2, 3, and 4, and Figure 1):¹⁰

- Poverty rates differ significantly depending on the particular measure used, the threshold employed, and the population group chosen. For instance, poverty rates are generally higher after housing costs are deducted than before. Similarly, the higher (or more generous) the threshold, the larger the percentage of the population living in poverty.

Using relative measures, poverty rates in New Zealand worsened significantly in the early-to-mid 1990s, and have remained high.

- On relative measures, poverty rates – using income-based thresholds after housing costs are deducted rose substantially in the early-to-mid 1990s and in most cases have remained at elevated levels since then; by contrast, poverty rates before housing costs are deducted rose less severely in the 1990s and have generally declined in recent years.
- Poverty rates for families with children over recent decades have generally been higher than for other population groups. This applies to both income-based poverty measures and material hardship measures. In general, family poverty is higher if there is only one parent; the household is receiving a welfare benefit; and if there are three or more children.

¹⁰ There are also qualitative data and the results of participative research that delve into the lived everyday realities of poverty in this country, but this research is not profiled here.

Childhood deprivation rates in New Zealand are several times higher than in the best-performing OECD countries. Māori and Pacific children experience material hardship rates of more than double those of Pākehā children.

- Poverty rates over recent decades have risen significantly for young adults (those aged 18–24 years).
- Poverty rates for those aged 65 years and over have generally been lower on most measures than for other age groups, but have also risen in recent decades.
- Poverty rates among Māori households and those of Pacific peoples have been consistently higher over recent decades than among European households. Māori and Pacific children, for instance, experience material hardship rates more than double those of Pākehā children; they also face a higher risk of remaining in poverty for extended periods (Imlach Gunasekara and Carter, 2012).
- Poverty rates are higher among families with significant physical disabilities and mental health issues (Murray, 2018); and living in poverty increases the likelihood of experiencing physical disabilities and mental health issues.
- Poverty tends to be concentrated spatially, and is particularly prevalent in the areas of Northland, Gisborne, South Auckland, Porirua, eastern Christchurch, and South Dunedin, as reflected in the New Zealand Indexes of Deprivation (Atkinson and Crampton, 2019; Exeter, et al., 2019). This reflects the clustering of poor households in areas with lower housing costs.

Poverty rates are higher among families with significant physical disabilities or mental health issues.

TABLE 1 – Percentage of children below selected poverty thresholds, 1982–2015

| Threshold type | Constant value or 'anchored' (after housing costs) | | Relative to contemporary median (after housing costs) | | | Relative to contemporary median (before housing costs) | Population (000s) |
|----------------|--|-----------------|---|-------------------------|-------------------------|--|-------------------|
| | 50% 2007 median | 50% 2018 median | 40% contemporary median | 50% contemporary median | 60% contemporary median | 60% contemporary median | |
| 1982 | 19 | | 8 | 14 | 22 | 20 | 998 |
| 1984 | 22 | | 9 | 14 | 24 | 20 | 968 |
| 1986 | 17 | | 6 | 12 | 21 | 19 | 940 |
| 1988 | 18 | | 7 | 12 | 22 | 17 | 936 |
| 1990 | 20 | | 6 | 13 | 21 | 16 | 913 |
| 1992 | 38 | | 12 | 22 | 33 | 24 | 907 |
| 1994 | 40 | | 13 | 24 | 35 | 24 | 937 |
| 1996 | 34 | | 15 | 23 | 32 | 21 | 964 |
| 1998 | 31 | | 15 | 22 | 32 | 20 | 984 |
| 2001 | 32 | | 13 | 24 | 35 | 23 | 1052 |
| 2004 | 25 | | 13 | 22 | 32 | 26 | 1070 |
| 2007 | 19 | 27 | 11 | 19 | 25 | 19 | 1091 |
| 2008 | 18 | 32 | 11 | 19 | 28 | 21 | 1085 |
| 2009 | 18 | 29 | 12 | 21 | 29 | 20 | 1087 |
| 2010 | 20 | 31 | 14 | 23 | 32 | 23 | 1091 |
| 2011 | 20 | 31 | 13 | 21 | 31 | 23 | 1103 |
| 2012 | 20 | 30 | 14 | 23 | 30 | 20 | 1083 |
| 2013 | 18 | 28 | 13 | 21 | 30 | 20 | 1094 |
| 2014 | 19 | 28 | 15 | 23 | 32 | 24 | 1094 |
| 2015 | 16 | 25 | 14 | 22 | 31 | 23 | 1097 |

Source: Perry, 2019b, p.141. The relative measures of poverty after housing costs show that poverty rates for children increased significantly in the early 1990s and have remained high. HES refers to the Household Economic Survey.

TABLE 2 – Child poverty rates in Aotearoa New Zealand, 2017–20:
percentages and numbers of children for nine of the ten measures under the Child Poverty Reduction Act

| Primary or supplementary measure | Measure | % Poor | | | # Poor |
|----------------------------------|---|---------|---------|---------|---------|
| | | 2017–18 | 2018–19 | 2019–20 | 2019–20 |
| Primary | BHC 50% relative | 16 | 14 | 14 | 160,000 |
| Supplementary | BHC 60% relative | 25 | 22 | 22 | 250,000 |
| Supplementary | AHC 40% relative | 16 | 14 | 14 | 160,000 |
| Supplementary | AHC 50% relative | 23 | 20 | 20 | 230,000 |
| Supplementary | AHC 60% relative | 31 | 28 | 28 | 320,000 |
| Primary | AHC 50% anchored | 23 | 18 | 18 | 210,000 |
| Primary | Material hardship | 13 | 13 | 11 | 130,000 |
| Supplementary | Severe material hardship | 6 | 6 | 5 | 50,000 |
| Supplementary | Both material hardship and less than AHC 60% relative | 9 | 8 | 7 | 75,000 |

Sources: Perry, 2021, p. 4; Stats NZ, 2021. There are different ways to measure poverty. For example, 11% of children experience material hardship, 5% of children are classified as experiencing severe material hardship, and 28% are considered poor based on the relative 60% AHC threshold for poverty.

Notes

1. There are ten measures required by the Child Poverty Reduction Act, four primary and six supplementary. One of the primary measures (that is, poverty persistence) has yet to be determined.
2. BHC refers to before housing costs; AHC refers to after housing costs.
3. The BHC and AHC measures are set with respect to a specified percentage of median household disposable income.
4. The AHC 50% anchored measure is set with respect to a reference point in 2017–18.
5. The material hardship measure is based on six or more lacks from a list of 17 items (DEP-17); the severe material hardship measure is based on nine or more lacks.
6. The figures are rounded to the nearest whole number and nearest 10,000 children respectively, except for the bottom two measures which are to the nearest 5,000.

TABLE 3 – Child poverty rates by ethnicity, from household economic survey, years ending June 2019 and June 2020
 BHC – before housing cost AHC – after housing costs.

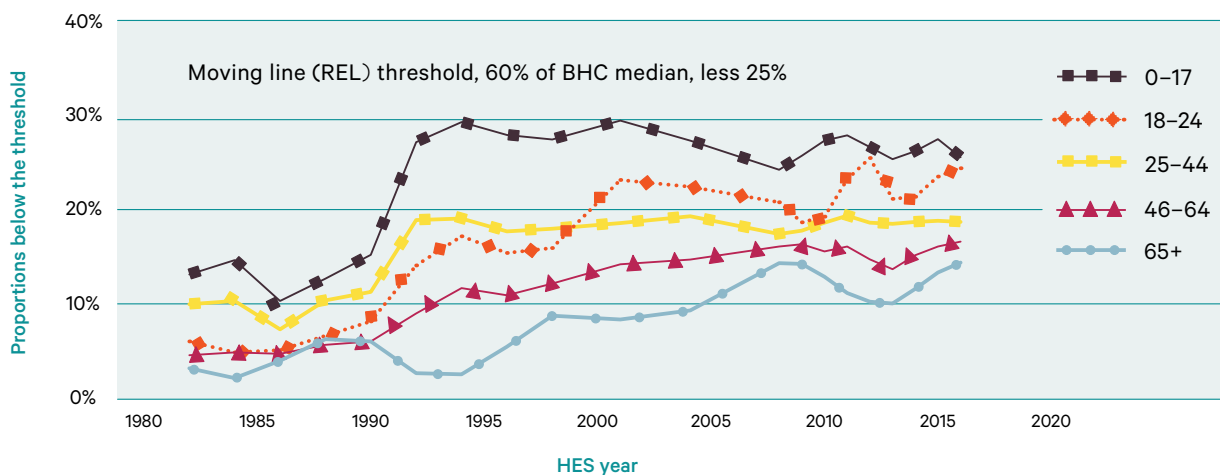
| Poverty measure | Year to June | European % | Māori % | Pacific peoples % | Total child population |
|-------------------|--------------|------------|---------|-------------------|------------------------|
| BHC 50% relative | 2019 | 10 | 18 | 19 | 14 |
| BHC 50% relative | 2020 | 11 | 17 | 19 | 14 |
| AHC 50% anchored | 2019 | 15 | 22 | 22 | 18 |
| AHC 50% anchored | 2020 | 15 | 21 | 21 | 18 |
| Material hardship | 2019 | 10 | 23 | 28 | 13 |
| Material hardship | 2020 | 9 | 20 | 26 | 11 |

Source: Stats NZ, 2021. Across different measures, child poverty rates for Māori and Pacific peoples are higher than for Pākehā.

Notes

Figures rounded. ‘Anchored’ means from a fixed benchmark, as opposed to relative.

FIGURE 1 – Proportion of all individuals in low-income households by age, based on a moving line (or annually adjusted relative) poverty threshold set at 60% of median disposable household incomes, after housing costs.



Source: Perry (2017, p. 125). HES refers to the Household Economic Survey. BHC refers to ‘before housing costs’; AHC refers to ‘after housing costs’.

TABLE 4 – Percentage of people living in households in poverty in the 2019 and 2020 financial years (1 July to 30 June) based on nine poverty measures.

| | Poverty measure | Poverty rate 2019 % | Poverty rate 2020 % | Annual rate of change (percentage points) | Number of people 2020 (000s) |
|---|---|---------------------|---------------------|---|------------------------------|
| 1 | Low income: less than 50% median equivalised disposable household income before housing costs for the financial year | 11.2 | 12.1 | 0.9 | 599.4 |
| 2 | Low income: less than 50% median equivalised disposable household income after housing costs for the base financial year ¹ | 15.4 | 15.5 | 0.1 | 765.5 |
| 3 | Material hardship ² | 9.2 | 7.5 | -1.7 | 368.6 |
| 4 | Low income: less than 60% median equivalised disposable household income before housing costs for the financial year | 20.4 | 20.9 | 0.5 | 1,033.7 |
| 5 | Low income: less than 60% median equivalised disposable household income after housing costs for the financial year | 22.9 | 23.6 | 0.7 | 1,169.9 |
| 6 | Low income: less than 50% median equivalised disposable household income after housing costs for the financial year | 16.6 | 16.7 | 0.1 | 828.5 |
| 7 | Low income: less than 40% median equivalised disposable household income after housing costs for the financial year | 11.9 | 12.2 | 0.3 | 606.4 |
| 8 | Severe material hardship ³ | 3.7 | 2.9 | -0.8 | 144.0 |
| 9 | Low income and hardship: less than 60% median equivalised disposable household income after housing costs for the financial year and material hardship ⁽²⁾ | 4.7 | 3.9 | -0.8 | 193.7 |

Source: Stats NZ 2021, see: <https://www.stats.govt.nz/information-releases/household-income-and-housing-cost-statistics-year-ended-june-2020>

Notes

1. The base financial year is 1 July 2017 to 30 June 2018.
2. Material hardship is defined as having a DEP17 score of six or more.
3. Severe material hardship is defined as having a DEP17 score of nine or more.

Appendix 1 (see page 50) discusses how poverty in New Zealand compares internationally.

NGĀ PŪ TAKE O TE RAWAKORE CAUSES OF POVERTY

Poverty of the kind experienced in an OECD country like New Zealand has many causes. These include both immediate or proximate causes and much deeper societal, cultural, and structural factors, such as the impact of colonialism, racism, and sexism.

Proximate causes include the level of income received from wages and salaries or self-employment; the level of public financial and other support for those needing social assistance, including welfare benefits and pensions; the level of public financial and other support for those with children; the cost of essential goods and services, especially housing; and a range of personal and family factors, including bad luck and unfortunate decisions. Several matters deserve particular emphasis.

Poverty in New Zealand has many causes, including the high cost of living, low incomes, insufficient government support, racial discrimination, and personal factors.

The economy

Poverty rates are affected by the state of the economy. As highlighted in Table 1, poverty rates for families with children rose following the global financial crisis (2008–09). This was due to higher unemployment and reduced wages for some (for example, due to reduced hours of work).

Economic downturns also tend to impact those on low wages and in more precarious forms of employment. Typically, this disproportionately affects young adults, those with limited skills, and those with disabilities. Young adults are particularly affected by economic downturns because they usually have less experience and fewer skills than older workers. These factors can influence whether they are selected for employment and whether they keep their jobs – that is, they may be ‘last in and first out’.



Colonisation and racial discrimination

As highlighted earlier, certain ethnic groups, especially Māori and Pacific peoples, experience much higher poverty rates on all relevant measures than other groups. There are multiple reasons for this situation, not least the history of colonisation, significant ongoing racial discrimination, particular policy settings (for example, with respect to social assistance, education, and employment), and powerful intergenerational processes. For instance, if a significant proportion of a particular ethnic group lose most of their assets (as was the case for Māori following European settlement), they will necessarily be poorer and have little wealth to pass on to their offspring. Limited assets, in turn, impact negatively on incomes and economic opportunities. As a result, ethnic inequalities in wealth and income readily become entrenched over generations and are hard to break. Thus far, governmental efforts to tackle such inequalities have fallen far short of those required.

Housing costs

Poverty rates are particularly affected by the cost of housing as this is typically the largest single expense for most households (Te Tapeke Fair Futures 'Spotlight on Housing'). In New Zealand, housing costs are a significant driver of poverty. House price inflation accelerated in the 1980s and continues to be rapid in the 21st century. Between 2000 and 2018, house prices rose more rapidly in New Zealand than anywhere else in the OECD (Perry, 2019b, p. 64). There has been a further dramatic increase since mid-2020.

House prices are important because they affect mortgage payments and rents. Not surprisingly, since the early 1990s, the number of households spending a high proportion of their incomes on rents and mortgage payments has increased significantly. For instance, in the mid-to-late 1980s, less than 20% of households, including the poorest fifth of households, spent more than 30% of their incomes on housing costs. During the 1990s, however, a much greater proportion of households spent more than 30% (ibid., p. 65). Since then, this pattern has persisted.

To compound matters, low- and middle-income households, including those with children, have been disproportionately affected by higher housing costs (Duncanson, et al., 2020). Take, for instance, the poorest 20% of all households (by income): over recent decades, it has been common for more than 40% of these households to spend over 30% of their disposable incomes on housing costs, with over 20% spending more than 40%. The situation is even worse if the households of those aged 65 years or more are excluded. For instance, in 2018 about 40% of the poorest 20% of households of those under 65 years spent more than half their income on housing costs. By contrast, a relatively small proportion of high-income households spent more than 30% of their incomes on housing costs. Understandably, many poor households struggle to cover their other basic costs (that is, food, clothing, heating, transport, and so on).

In recent decades, those aged 65 years and over have been partially shielded from the impact of rising housing costs because of relatively high rates of home ownership. However, with home ownership rates continuing to fall, an increasing number of people will be faced with the prospect of retiring without owning their own home. But New Zealand Superannuation (the universal pension scheme) assumes that retirees own

their home so, without policy changes, there is a risk of higher poverty rates among the elderly in coming decades.

Government policy

Poverty rates are affected by a range of government policies (for example, social assistance, taxation, minimum wages, social housing, health care, and so on). In the early 1990s, for instance, cuts to the real value of welfare benefits and changes in housing policies significantly increased poverty rates among beneficiary households. By contrast, the package of tax credits introduced during 2005–07 (Working for Families) reduced poverty rates among families with children, especially those with at least one parent in full-time employment. The more recent Families Package, as noted below, has also contributed to reducing child poverty.

Home ownership rates continue to fall. But New Zealand Superannuation assumes that retirees own their home so, without policy changes, there is a risk of higher poverty rates among the elderly in coming decades.



ME PĒHEA TE WHAKAITI I TE RAWAKORE?

HOW CAN POVERTY BE REDUCED?

This paper has highlighted the harmful effects of poverty, especially when it occurs during early childhood or is prolonged and severe. Likewise, it has been argued that poverty is not only undesirable, it is also unfair. Accordingly, there are good reasons for countries like New Zealand to seek lower poverty rates – on all relevant measures and for all population groups. But how best to achieve such a goal is much debated. This section of the paper briefly reviews the main options.

Poverty can be reduced through policies that redirect how government money is spent.

Policy choices

Countries with broadly comparable living standards have markedly different rates of poverty. This highlights that governments are not powerless in the face of poverty. To a significant extent, poverty rates reflect deliberate policy choices.¹¹ Well-designed public policies can alter the distribution of income (and non-cash public assistance, such as access to health care and housing) and reduce poverty rates, both significantly and sustainably.¹²

In New Zealand, as noted earlier in this paper, poverty rates among the elderly (on a range of measures) are lower than for most other age groups – and this has been the case for many decades. Such outcomes are no accident. Nor are they due to the elderly making better choices or leading more virtuous lives than younger citizens. Rather, elder poverty rates are low because successive governments have implemented policies over many decades that enabled most elderly people to own a home (and thus enjoy relatively affordable and healthy housing), have incomes above widely

¹¹ This paper places significant weight on the use of policy instruments to reduce poverty because international and domestic evidence highlight that they have a major impact in countries like Aotearoa New Zealand. Other 'transformational' approaches, which for example may focus on the role employers or property investors play in poverty, are not the focus of this evidence-based paper.

¹² The panel acknowledges but does not discuss in this paper the impacts on poverty of the Covid-19 pandemic and related policy responses, or the significant shifts in the nature and forms of employment arising from the fourth industrial revolution.

recognised poverty thresholds, and have access to an extensive range of subsidised public services. The policy settings for New Zealand Superannuation, which include the indexation of pensions to movements in average wages, are particularly relevant (see below). The available evidence clearly suggests that policy-makers have consistently favoured the elderly over children. It is time for New Zealand to develop a policy framework which delivers similarly low poverty rates for all its citizens – in line with the country’s commitment to the SDGs. Such a framework is feasible. It is not utopian. But it will require difficult policy choices.

The main policy approaches

Within OECD countries, two main approaches to reducing poverty have been advanced in recent decades (Boston and Chapple, 2014; OECD, 2009, 2011): one focuses on increasing employment, the other on income redistribution. The employment-based

strategy is designed to boost the proportion of the adult population receiving market incomes (that is, wages, salaries, and income from self-employment). The second strategy focuses on increasing the redistributive effectiveness of the tax-welfare system, especially by enhancing financial assistance for those without paid employment or with inadequate market incomes.

Both strategies have advantages and disadvantages, and they are not mutually exclusive. Indeed, the evidence suggests that for the best results both approaches should be applied simultaneously. In New Zealand, recent governments of different political persuasions have relied on both approaches, albeit to varying degrees. Thus far, however, their efforts have not been sufficient to reduce poverty rates in a significant and sustained way (Boston, 2019; Dale, et al., 2011; St John, 2006, 2013; Welfare Expert Advisory Group, 2019). The Covid-19 pandemic has made the task of achieving low poverty rates somewhat

Approaches to reducing poverty currently focus on boosting employment; enhancing welfare benefits and investment in social housing; and reforming other aspects of the welfare state.



Successfully reducing poverty will require additional public expenditure and higher taxes.



harder over the medium-term – first, by increasing unemployment, and second, by reducing the fiscal resources available for income redistribution.

Boosting employment

The employment strategy for tackling poverty aims to increase overall participation rates in the labour market and minimise unemployment through a combination of macroeconomic measures (for example, changes to public expenditure and revenue or monetary policies); microeconomic measures (for example, regulatory reforms); and active labour market policies (for example, via public employment services, subsidised training, and relocation allowances). Such an approach assumes that high employment rates will lift overall household incomes, including those at the lower end of the income distribution, thereby alleviating poverty. Although plausible, this assumption entails obvious risks and limitations:

- Many jobs command only modest returns, and boosting the statutory minimum wage may reduce employment opportunities because some employers may choose to have fewer workers.^{13,14} Note that the statutory minimum wage in Aotearoa New Zealand is currently among the highest in the world on a purchasing power parity basis and among the highest relative to the median wage (at close to 70%).
- Lots of people are unable to work full-time – or even part-time – due to chronic illnesses, significant disabilities (or a lack of workplace provision for those with disabilities), major caring responsibilities (for example, for young children or other dependents), or old age. Providing stronger financial incentives for working-age people to work (for example, by keeping rates of social assistance low) means that many people who can't take advantage of these, including caregivers of young children and those with disabilities, are likely to face material hardship.

¹³ 'Living wages' (which are voluntary rather than mandatory) are another approach to reducing in-work poverty. However, most of the risks and limitations associated with higher statutory minimum wages apply equally to 'living wages'. This does not imply that the concept of a 'living wage' lacks validity, but rather that wages deemed to be 'living' are often insufficient to prevent relative poverty or material hardship, depending on a person's circumstances (for example, their housing costs, number of dependents, level of debt, and so on).

¹⁴ For a rigorous analysis of the costs and benefits of raising the statutory minimum wage, see for example, <https://www.motu.nz/about-us/news/research-nz-minimum-wage-policies/>

- Wage rates reflect specific skills and labour market conditions; they make no allowance for the fact that the size and needs of families vary greatly.
- Boosting wages in the context of highly targeted social assistance will have little impact on the net incomes of many individuals and families because assistance reduces as income rises (for example, housing assistance, student allowances, family assistance, and so on). Without adjustments to the relevant welfare settings, some people will be little better off in real terms.
- Economic shocks due to financial crises, natural disasters, or pandemics like Covid-19 can result in substantial unemployment over protracted periods. These shocks affect some groups more than others, such as women, Māori, Pacific peoples, and young people (see Alan Bollard's Te Tapeke Fair Futures Expert Commentary 'A Fair Economic Future? Impacts of Covid-19').

For such reasons, relying solely on an employment strategy is highly unlikely to reduce income-based poverty or material deprivation to sufficiently low levels. This is especially true for the significant number of sole parents on a benefit caring for young or

disabled children. Moreover, for adults with disabilities, further support and regulatory changes may well be necessary to ensure that secure, appropriate employment can be obtained.

Redistributing income

Poverty can also be tackled through a greater focus on efficient income redistribution. This includes enhancing the effectiveness of the tax-benefit system, along with related reforms to the wider institutions of the welfare state – including education, health care, housing, accident compensation, childcare, child support, and elder care. Fundamentally, an income-based approach is designed to ensure that all citizens can meet their needs, irrespective of their participation or otherwise in the labour market.

Cash and non-cash assistance

A redistributive approach typically combines various forms of cash and non-cash assistance (see Berentson-Shaw and Morgan, 2017). Cash assistance includes welfare benefits and social insurance, housing subsidies, and a mix of universal and targeted income support (often via tax credits) for families with children and others with particular needs (for example, those with significant disabilities).



Empirical evidence from Scandinavia indicates that well-designed welfare states can reduce poverty on all relevant measures to relatively low levels for extended periods of time.

Non-cash assistance generally includes the direct provision of fully (or heavily) subsidised childcare, education, and health services; substantial public investments in social housing; and food-in-school programmes. Such services not only contribute directly to enhanced wellbeing but also reduce the demands on household budgets, leaving more resources for other household items. Such services typically include the provision of advice and other supports designed to improve the capacity of families to manage resources and build competencies (for example, through improved budgeting, parenting and life skills, better family functioning, and advice on career transitions).

Well-designed welfare states

Empirical evidence from Scandinavia indicates that well-designed welfare states can reduce poverty on all relevant measures (that is, income-based and material hardship) to relatively low levels for extended periods of time (Mood and Jonsson, 2016). But there are three important caveats.

First, for long-term success, a dynamic and ecologically sustainable economy with steady productivity growth is essential. This requires, among other things, a highly trained workforce, substantial investment in research, and excellent public infrastructure.

Second, comprehensive welfare states are not cheap. They require taxpayers to make a substantial contribution to ensure the welfare of all. This means relatively high levels of direct and indirect taxation, often coupled with significant social insurance contributions for unemployment, sickness, and pensions. Moving New Zealand's welfare state in the direction of the Nordic model would raise significant administrative, fiscal, and political issues. It would, above all, require much higher public expenditure on income support, along with large ongoing investments in social housing. Such measures would, in turn, require substantially higher tax rates or compulsory contributions to new forms of social insurance, or both. Public support for such measures may be difficult to secure and then sustain.

Third, the Scandinavian approach depends on high labour force participation rates, coupled with relatively flexible labour markets to facilitate, if not encourage, rapid technological change and productivity growth. Citizens who can undertake paid employment are expected to do so. In Denmark, this approach is referred to as ‘flexicurity’: relatively generous social security coupled with labour market flexibility. Such approaches have significant implications for childcare arrangements, labour market regulation, and employment policies.

Recent New Zealand policy measures to reduce poverty

Over recent decades, governments of both the centre-right and the centre-left have made efforts to tackle poverty (Boston, 2019, 2021; DPMC, 2020; Treasury, 2019, 2020, 2021). Notable policy initiatives include:

- measures to enhance housing affordability (for example, via extra subsidies and wider reforms to the housing market, urban planning, and infrastructure investment)
- greater support for families through more generous tax credits (for example, Working for Families in the mid-2000s and the Best Start Tax Credit for young children in 2018)
- changes to the way some social assistance

is indexed (adjusted regularly for changes in prices or wages), including the linking of core benefit rates to average wages from April 2020

- upward adjustments to the real value of core benefits in 2016, 2020, 2021, and 2022
- increased subsidies for childcare, early childhood education, tertiary education, and primary health care
- the introduction of free school lunches for children in low-decile schools
- efforts to tailor and target assistance for disadvantaged groups through the ‘social investment approach’ (Boston and Gill, 2018)
- significant increases in statutory minimum wages and a series of pay-equity settlements for groups of low-paid workers.

Much of the focus of recent government efforts to address poverty has been to reduce childhood poverty – prompted no doubt by vigorous public campaigns by the Child Poverty Action Group and other civil society organisations, along with authoritative representations by various Children’s Commissioners. Of particular significance was the enactment of the Child Poverty Reduction Act in 2018. Inspired in part by the British Child Poverty Act in 2010, the 2018 Act is designed

‘to help achieve a significant and sustained reduction in child poverty’. Under the Act, governments are required to establish long-term (ten-year) targets and intermediate three-year targets – as markers on the journey. The targets must be set for four poverty measures: two income-based poverty measures, a material hardship measure, and a measure of poverty persistence.

Governments are free under the Child Poverty Reduction Act to determine how ambitious their targets should be. They are also at liberty to revise their targets at any stage. But the requirement to set targets means that governments must be explicit and transparent about their intentions. The Child Poverty Reduction Act also amended the Public Finance Act 1989, introducing section 15EA. This obliges the annual Budget to include a report on child poverty that reviews progress over the most completed financial year and assesses whether, and to what extent, the measures in the Budget will affect child poverty. In this way, governments can be more readily held accountable by Parliament and the public for their performance and whether their planned budgetary measures are likely to assist in achieving their poverty reduction targets. To date, three such child poverty reports have been produced (see Treasury 2019, 2020, 2021).



Recent government initiatives have included more generous tax credits for families with children, the linking of core benefit rates to average wages, increased subsidies for childcare, education, and primary healthcare, and increases in statutory minimum wages.

Table 5 outlines the various child poverty reduction targets that governments have set since 2018, and provides data on progress towards meeting these targets. Note that the poverty data for 2019–20 was based largely on the Household Economic Survey, which was concluded at the start of the Level 4 lockdown in late March 2020. Accordingly, the data do not reflect the impact of Covid-19 on poverty rates. The available data suggest that progress was being made in reducing child poverty rates on each of the three primary poverty measures for which targets have been set.

Reaching the government’s long-term targets for 2027–28 will be challenging. According to modelling by Te Tai Ōhanga The Treasury (2021, p. 30–33), the phased increases in core benefit rates announced in the 2021 Budget are projected to reduce child poverty by 2–3 percentage points (19,000–33,000 children), based on the after housing costs, fixed-line poverty measure; and by 1–3 percentage points (12,000–28,000 children) based on

the before housing costs, moving-line poverty measure. While such projections are welcome, substantial additional policy measures will be required (for example, in relation to levels of family assistance and housing assistance) if the 2027–28 targets are to be met.

Whether such measures will be forthcoming remains to be seen. Two factors are likely to have a strong influence: the state of the local and global economy during the 2020s (as the impact of Covid-19 eases); and the ideological orientation and policy priorities of future governments and, in particular, whether they remain committed to the Child Poverty Reduction Act.

The Child Poverty Reduction Act 2018 requires current and future governments to set three- and ten- year targets for reducing child poverty.

TABLE 5 – Child Poverty Reduction Targets and Rates

| Primary poverty measure | Stats NZ child poverty rates year to June 2018 % | Stats NZ child poverty rates year to June 2019 % | Stats NZ child poverty rates year to June 2020 % | Intermediate targets 2020–21 % | Intermediate targets 2023–24 % | Long-term targets – 10 years 2027–28 % | Best in OECD for children % |
|---------------------------------|--|--|--|--------------------------------|--------------------------------|--|---|
| BHC, 50% of median, moving line | 16.5 | 13.5 | 13.8 | 10.5 | 10 | 5 | 3–5 Denmark, Finland |
| AHC, 50% of median, fixed line | 22.8 | 18.3 | 18.4 | 18.8 | 15 | 10 | Data not available |
| Material hardship | 13.3 | 13.2 | 11.3 | 10.3 | 9 | 6 | 3–5 Sweden |
| Poverty persistence | | | | Yet to be determined | Yet to be determined | Yet to be determined | About 5 for BHC 50% Sweden, Finland |

Sources: Stats NZ, 2021 (updated); Te Tai Ōhanga Treasury, 2021; <https://www.beehive.govt.nz/release/government-releases-second-set-child-poverty-targets>, 30 June 2021. Aotearoa New Zealand has set various long-term goals for reducing child poverty. If these goals are met, the country will have child poverty rates among the lowest in the OECD. In recent years, there has been a slight reduction in child poverty on three of the four primary poverty measures, but more needs to be done to meet the 2027–28 targets.

Notes

A **moving-line measure** is based on a household's current income relative to the current median for all households. The threshold moves from year to year due to inflation and economic changes.

A **fixed-line measure** is based on an income threshold for a particular reference year and keeps this threshold constant, while adjusting for inflation. (From: <https://www.stats.govt.nz/methods/measuring-child-poverty-fixed-line-measure>.)

NGĀ WHAKAARO O TE RŌPŪ KŌRERO MŌ NGĀ ŪNGA

THE PANEL'S VIEW ON TARGETS

The panel supports the government's 2018 decision to set intermediate child poverty reduction targets (for 2020–21) and long-term targets (for 2027–28). The long-term targets are consistent with the panel's vision. If achieved, this country will enjoy among the lowest rates of child poverty globally.

At the same time, in keeping with the country's SDG commitments, there is a case for setting equally ambitious targets, as noted earlier, for other age groups and for all ethnic groups.

The situation facing those aged 18–24 years deserves particular mention. Over the past decade or so, poverty rates for young adults have been close to those for children (those aged 0–17 years), and higher than for older adults, particularly those without children (see Figure 1). There are various reasons why young adults have experienced higher poverty rates, particularly from the early-to-mid 1990s, and why these higher rates have

If the long-term targets are achieved, this country will enjoy among the lowest rates of child poverty globally.

persisted. These include less generous and more tightly targeted levels of public financial support for those in full-time education and training (especially relative to the situation in the 1980s); higher overall housing costs; lower rates of social assistance for the unemployed; changes to the labour market (including, at times, fewer protections for young workers); and changing family structures. Some of these issues have been at least partially addressed by recent policy changes, but additional reforms will likely be needed if the poverty rates experienced by young adults are to match the ambitious targets set for childhood poverty.

KUPU WHAKATEPE CONCLUSION

New Zealand's landmark Social Security Act was enacted in 1938. One of its core objectives was to reduce poverty, substantially and sustainably. Yet, more than three generations later, significant poverty remains, not least child poverty.

Better outcomes, however, are possible. The Nordic countries demonstrate that it is feasible for advanced industrialised countries to secure low levels of material hardship and income-based poverty for all population groups, and sustain such outcomes over extended periods of time. In principle, there is no reason why New Zealand cannot replicate their achievement. To a significant extent, this goal has already been realised among the elderly. But it has yet to be achieved for families with children, young adults, Māori, Pacific peoples, and those with disabilities.

Legislation such as the Child Poverty Reduction Act will hopefully assist in alleviating family poverty through greater political ambition and stronger accountability for results. Yet, to the extent that such legislation is merited for children, there is also a case for extending its coverage to the entire population because poverty matters regardless of a person's age, gender, or ethnic background.

Of course, the magnitude of the challenge of achieving low rates of poverty for all sections of the community must not be underestimated. Success will depend, among other things, on significant reform of the welfare state, including a substantial boost to family assistance programmes, reform of child support, a substantial improvement in housing affordability, and effective active labour market policies. All such measures come with fiscal costs, and some of these are large.

The Covid-19 pandemic will leave New Zealand (and most other countries) with higher levels of public debt, which will increase the pressure on governments to curb public expenditure and secure fiscal surpluses. In such a context, any significant increase in social expenditures will require higher tax revenue; this implies higher tax rates and new taxes – or perhaps new social insurance levies. As in all policy areas, trade-offs are inevitable. Not all good things can be enjoyed simultaneously. A key question for the citizens of New Zealand is whether the moral case for greater fairness, as reflected in low poverty rates, is persuasive.



A key question for the citizens of New Zealand is whether the case for greater fairness, as reflected in low poverty rates, is persuasive.



ĀPITIHANGA: NGĀ WHAKATAURITENGA O TE AO

APPENDIX 1: INTERNATIONAL COMPARISONS

Comparing poverty rates across countries, using income-based measures, poses major methodological challenges. Nevertheless, meaningful comparisons are possible using material hardship measures. According to analyses undertaken by Perry (2019a, pp.25-26; 2021, pp.57-59), childhood deprivation rates in New Zealand, based on both ‘standard’ and ‘severe’ measures of material hardship, are several times higher than in the best performing OECD countries, most notably the Nordic countries (see Table 6). Against this, childhood deprivation rates in New Zealand compare more favourably with most countries in Eastern Europe. Significantly, however, whereas childhood deprivation rates in New Zealand are much higher than in the Nordic countries, rates of material deprivation among the elderly are broadly similar. Policy choices provide part of the explanation for the variable experiences of different age groups.

TABLE 6 – Material deprivation rates for children (0-17 years)

| | % with 5+ lacks 'standard' material deprivation | % with 7+ lacks 'severe' material deprivation |
|--------------------|---|---|
| Sweden | 3 | 1 |
| Iceland | 4 | 2 |
| Denmark | 5 | 2 |
| Norway | 5 | 2 |
| Finland | 6 | 2 |
| Netherlands | 6 | 2 |
| Luxembourg | 8 | 4 |
| Cyprus | 10 | 4 |
| Spain | 13 | 6 |
| Slovenia | 14 | 6 |
| Austria | 14 | 7 |
| Belgium | 15 | 8 |
| Czech Republic | 16 | 7 |
| United Kingdom | 16 | 6 |
| Estonia | 17 | 8 |
| Italy | 17 | 8 |
| Ireland | 17 | 7 |
| France | 17 | 9 |
| New Zealand | 18 | 8 |
| Germany | 21 | 10 |
| Greece | 22 | 9 |
| Malta | 23 | 9 |
| Slovakia | 23 | 13 |
| Poland | 27 | 15 |
| Lithuania | 30 | 19 |
| Portugal | 33 | 20 |
| Latvia | 45 | 30 |
| Hungary | 52 | 33 |

Percentage of children lacking 5 or more items and 7 or more items out of 13. EU-SILC 2009, NZ LSS 2008. Source: Perry, 2019a, p. 26.

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