Chapter 10

New Zealand: A Search for a National Poverty Line

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Poverty in Aotearoa, New Zealand, is a concept many have found difficult to accept. Not only is New Zealand rich in natural resources, it is also a country that has, at various times, been internationally regarded as a significant social policy innovator, a country of social and economic equality.

However, poverty has emerged as a topic of public discussion in recent times, and the history of research on the subject goes back a number of decades before that. As New Zealand's economic fortune has plummeted, the country has found it increasingly hard to continue to perpetuate the myth of equality. The complacent postwar reliance on the guaranteed market of a colonial economy, has been replaced by market insecurity, large-scale unemployment and the significant removal of state social provisions.

The development of the Welfare State, modern constraints, industrial and employment changes, and official definitions of poverty

New Zealand's political and social development has been atypical when compared with the majority of modern democratic states. By 1900, New Zealand was very advanced in terms of social policy, with voting rights for women, legislation that prevented sweated labour in factories, guaranteed minimum wages, instituted compulsory arbitration, and a pension scheme for elderly people in need.

In the 1930s, New Zealand further distinguished itself with the passing of the Social Security Act 1938. It was one of the most comprehensive pieces of social protection legislation in its time. Poverty was defined in terms of an absolute level of minimum needs, and a social welfare system was devised to remove it.

> An Act to provide for the payment of superannuation benefits and of other benefits designed to safeguard the people of New Zealand from disabilities arising from age, sickness, widowhood, orphanhood, unemployment, or other exceptional conditions; to provide a system whereby medical and hospital treatment will be made available to persons requiring such treatment; and, further, to provide such other benefits as may be necessary to maintain and promote the health and general welfare of the community.

From the 1950s on, however, New Zealand began to lag behind developments in most other welfare states. Bertram (1988) noted "that compared to the United Kingdom, the New Zealand Welfare State has been relatively limited both in scope and in the scale of post 1945 expansion and has been less committed to universalist systems of delivery".

Castles (1985) identifies the working-class quest for wage and employment security as the fundamental influence on the shape of New Zealand's social policy. Industrial protection, wage regulation, and restricted immigration were means of preventing poverty and ensuring full employment. Flat-rate and means-tested benefits, financed from general tax revenue, typified a social regime that – "built on a scarcity of labour, consequent full employment and minimum wages, and guaranteed by compulsory conciliation and arbitration – required only a welfare safety-net for those outside the labour market".

In 1949, New Zealand was one of the world's leading spenders on social security, but during the 1950s it started falling behind other Western democracies (Castles 1985). At a time when other countries were expanding welfare provision, New Zealand did not. Bertram noted Castles' notion that employment, not citizenship (as in Europe), has been the basis of the New Zealand welfare state. He suggested that there is a fundamental ambivalence between these two principles in the design and provision of welfare. Hence the lower spending and more minimalist tendencies alongside certain universal provisions, such as health care. Shirley (1990) identified the comparatively weaker labour movement in New Zealand, because of its small size and dispersed nature, as the reason for a less comprehensive welfare state.

Most analysts agree that New Zealand's social policy regime has had a peculiar Australasian mixture of a northern European rights-based model alongside a minimalist needs-based one (Boston 1992; Castles 1985; Esping-Andersen 1990; Shirley

1990). O'Brien and Wilkes (1993) summarized the development of social policy in the period between 1950 and 1984.

> Ostensibly universal social policies were commonly hedged about with qualifications, both moral and practical, and any assessment that New Zealand had reached a "pure" form of universalist welfare state aimed at solving poverty as an entirely practical matter is clearly misguided.

A notable policy exception to this trend was the creation, in 1972, of the Accident Rehabilitation and Compensation Insurance Corporation (ACC). It prevented poverty for those who were disabled through an accident. Compensation came in the form of a lump sum and weekly payments of up to 80 per cent of the victim's former income. Like the social insurance provision of welfare in northern Europe, this enabled them to maintain a similar standard of living, in marked contrast to the benefit system. The scheme was financed by employers, the self-employed, and motor vehicle owners, supplemented by government.

In the 1970s, in the face of growing international concern about poverty, Henderson et al.'s (1970) research into poverty in Australia, and the beginnings of the country's changing economic fortune, New Zealand took an in-depth look at its social security system with the appointment of a Royal Commission.

The 1972 Commission stated that "need and the degree of need, should be the primary test and criterion of help to be given". It suggested that need should be defined relative to the accepted standards in the New Zealand community at the time, and that the social security system should ensure "that everyone is able to enjoy a standard of living much like that of the rest of the community, and thus is able to feel a sense of participation in and belonging to the community".

The Commission radically redefined the official concepts of social welfare and poverty in terms of a standard of living comparable with the rest of the community. This relative definition went beyond earlier official definitions in terms of meeting immediate physical needs, to a concept of the right to an active and involved place in New Zealand society.

The fiscal crisis of the 1970s and 1980s impacted heavily on the New Zealand economy. Debt levels, inflation, and unemployment escalated, as economic growth plummetted. By the early 1980s there was increasing pressure to change economic direction. For some, particularly those associated with "new right" ideology, the opportunity enabled the possibility of fundamental changes to the New Zealand welfare state as well. From 1984 on, successive Labour and National governments obliged, and as a result the country's welfare regime has become increasingly targeted and residualist (Boston 1992; Shirley 1990; Stephens 1992; Waldegrave 1991).

The overdue economic reforms were introduced very quickly by the Labour government. However, it introduced social reforms more gradually in the areas of health, education, and fundamental changes to the progressive tax system. Personal tax for those on the highest incomes was halved. A regressive goods and services tax and a guaranteed minimum family income were created.

The National government in 1990 and 1991 followed Labour's lead, but dramatically lifted the pace and extremity of change. The net result has included major cuts in the nominal value of most social welfare benefits, stricter eligibility criteria, benefits ceasing to be indexed to inflation, longer stand down (unpaid waiting period) for the unemployment benefit, the introduction of a raft of new part charges for health care and education along with tighter targeting, the removal of lump-sum payments for accident victims and the introduction of employee contributions to the scheme, targeted cash subsidies for accommodation, and a move to market rentals (replacing income-related rents) for state-provided housing.

With official unemployment running at 10 per cent in the early 1990s, many households were adversely affected by these moves. On top of this, industrial deregulation, particularly the Employment Contracts Act, significantly eroded the take-home pay for those on low incomes. A recent study (Rose 1993) has shown that the average household income from wages and salaries fell 5.1 per cent for those on lowest earnings (quintile 1, bottom 20 per cent), whereas they actually increased (though minimally for middle-income earners) for all other groups.

The combination of high unemployment, the reduction and targeting of state social provision, and industrial legislative changes has created greater hardship in New Zealand. The 1990s have been characterized by constant media reminders from community agencies of the widespread nature of poverty. The creation, by them, of a chain of nationwide voluntary run foodbanks is but one of many examples of the public concern about poverty in their communities.

It is not surprising, given the changes over the past decade, that the New Zealand government has found it difficult to live with the official definition of poverty, set out in relative and participatory terms by the 1972 Royal Commission on Social Security and reaffirmed by the 1988 Royal Commission on Social

Policy. In 1990, a study of income adequacy (Brashares and Aynsley) was commissioned by the New Zealand Treasury. Among its recommendations was the suggestion of an absolute poverty measure based on minimal food costs. Though not adopted officially, the Cabinet had this study before them when they made the decision significantly to reduce benefits and other welfare provision in 1991 (Campbell 1991). By implication, it could be argued that a return to an "absolute" rather than a "relative" official definition of poverty has taken place.

The debate, discussion, and measures of poverty have gone full circle in New Zealand, always influenced by its economic fortunes. Discussion and research are very active at this time. Recent work owes much to earlier pioneers in the modern field of research. Early income distribution studies (Rosenberg 1968, 1971; Seers 1946), historical economic studies (Oliver 1988; Sutch 1969), the work of the 1972 Royal Commission on Social Security, the Department of Social Welfare deprivation study (1975), and the poverty measurement studies of the early 1970s (Bedggood 1973; Cuttance 1974, 1980; Easton 1976) are among those that stand out.

The following review of recent poverty research in New Zealand is set in the above context. As in most countries, the approaches to such research vary greatly. Particular emphasis will be given to the differing methodologies used. For the purposes of this chapter, and in line with the CROP guidelines for the various regional overviews, only studies carried out from 1980 to the present will be examined. They will be reviewed under three headings: descriptive and self-report approaches; income distribution and equality approaches; and poverty line approaches.

I take the view that all these approaches contribute significantly to our understanding of poverty. No one approach gives us all the information; rather this requires the collection of the different approaches in both qualitative and quantitative forms. Not every study will fit neatly into the assigned categories, but the categories offer a helpful basis for comparison.

Descriptive and self-report approaches

Numbers of local studies have been carried out around New Zealand with a view to investigating the experiences of low-income families. Their primary concern has been to identify the economic pressures on those families, how they dealt with those pressures, and some description by the families of their own situation.

One such study was commissioned by the Low Incomes Working Party in Christchurch (Crean 1982). Survey data were collected by structured interviews, using a questionnaire. The questionnaire was constructed in association with experienced academic researchers, and consisted of seventy-two main questions. A careful definition of low income was used: Grade 2 of the very low-paying Clerical Workers Award Wage. A sample of fifty-three families with children were interviewed.

The results indicated that the families' total budgets were absorbed in maintaining basic survival necessities, such as food, shelter, health expenses, etc. Constant anxieties were reported about balancing household budgets, with 70 per cent of families claiming that their weekly budgets ranged over the year from NZ$30 surplus to NZ$30 deficit. The families reported their daily living to be "full of constraints and limited choices".

Similar local, small-scale studies have been carried out in Auckland (Auckland District Council of Social Services 1982), Palmerston North (Brosnahan et al. 1983), and Lower Hutt (Trego and Leader 1988). A somewhat larger study was commissioned by the Manukau City Local Authority (Crothers 1993) to survey economic hardship. The sample consisted of 370 randomly selected Manukau households. The study found that 40 per cent considered themselves financially worse off than they were a year before; 20 per cent were better off. Respondents reported problems in the following areas: health costs 22 per cent; housing costs 21 per cent; children's costs 15 per cent; food costs 15 per cent; and transport costs 9 per cent. 48 per cent put off visits to the dentist and 43 per cent visits to the doctor. Despite this 59 per cent reported that they were satisfied with their standard of living, with 16 per cent dissatisfied. In summary, however, the report stated, "it is clear that many of the households surveyed were suffering considerable financial difficulties".

An early Christchurch study (Fergusson et al. 1981) took another approach by attempting to measure material well-being rather than economic well-being, as exemplified in income-, expenditure- or budget-based methods. Material well-being was analysed along two correlated dimensions: the level of family ownership, and the economizing behaviour the family was required to undertake. The project was developed as an adjunct to the longitudinal Christchurch Child Development Study. For the study, 1,169 mothers who gave birth to children in the Christchurch urban region a year earlier than the study were administered forty-nine questions in precoded checklist form. The responses were factor analysed. The item endorsements for the ownership and the economizing scales were set out in household income deciles.

9 Ownership was very low over the first five deciles (lower-income groups) and rose rapidly over the last five. The profile of the economizing dimension was more skewed, but nevertheless showed considerable decline for the higher-decile groups. Both dimensions demonstrated moderate to good reliability and showed systematic correlations with the predictive measures.

A number of national descriptive and self-report studies have also been undertaken. Like the local research, these projects have also demonstrated considerable hardship for households on low incomes. The Department of Social Welfare (Rochford 1987) carried out a survey of living standards of 1,114 randomly chosen beneficiaries, which was added on to the routine quality-control interviews with domestic purposes (DPB) and unemployment beneficiaries (UB). This study attempted to replicate, for different groups, an earlier survey on the aged (Department of Statistics 1975). The questions largely focused on affordability criteria such as accommodation costs, visits to the doctor, and clothing and food costs.

The results indicated "*a high overall level of financial difficulties*". About half reported postponing visits to doctors or dentists and repairing old clothes because of lack of money, over a quarter acknowledged difficulties with accommodation costs and about a third went without meat or fish because of a lack of money. Despite this, more than half the sample were satisfied with their standard of living.

A comparative examination of particular sub-groups was also carried out. DPB single parents with more than one child, UB long-term single, singles aged 18–19, and two-parent families all experienced greater financial difficulties than other beneficiary types.

In 1984, Television New Zealand commissioned a commercial research company (Heylen Research Centre 1984) to carry out a national wealth and poverty survey, in which 826 randomly chosen household decision makers were interviewed in their houses. The results exposed increasing distinctions between the rich and the poor. While 19,000 New Zealanders missed a meal because they couldn't afford it, 88,000 families reported dining at a licensed or B.Y.O. restaurant at least once a week. 90,000 families postponed doctors visits because of lack of money, while 103,000 put up with feeling cold to keep down heating costs. Ten percent of households couldn't afford even 3 days away from home in a year while 77,000 families could holiday regularly overseas eachyear. The survey claimed that the main group of dispossessed were children, a quarter of a million were living in relative poverty.

Poor New Zealand (Waldegrave and Coventry 1987) is one of the very few books written specifically on the subject of poverty. The authors drew together many studies and the stories of New Zealanders on six dimensions: housing; income; race; employment; health; and gender. The book described poverty in personal, micro, and macro ways using a mixture of personal accounts, local studies, and national statistical data.

Written as "An Open Letter on Poverty", the authors did not attempt to identify a poverty line, but rather indicated the growing body of poverty evidence under each of the six dimensions noted above. Unlike most other studies, they viewed the growth of poverty from each of the six perspectives, tracing New Zealand's history and performance in each. The wide range of studies used, though not establishing a single measure, allowed a multidimensional picture of the complexities of understanding poverty more than one-dimensional measures do. In contrast to the other studies noted thus far, *Poor New Zealand* identified the disproportional way in which Maori and Pacific Island people and women (particularly single-parent women) shoulder the burden of poverty on almost every measure.

The last national study in this section adopted a quite different methodological approach. *Neither Freedom nor Choice* (Craig et al. 1992) was a major qualitative investigation into the experienced impacts on low-income households of the benefit cuts and other social policy changes. A novel method to gather data was chosen. A People's Select Committee, composed of four prominent New Zealanders (a bishop, a Maori elder and academic, a women's studies academic, and the national coordinator of the Unemployed and Beneficiaries Movement), was established to conduct the enquiry.

The People's Select Committee found that there were major social and economic consequences arising from the benefit cuts and other social policy reforms. They noted the "pervasive and overwhelming effect on all aspects of people's lives . . . the creation of greater poverty, greater inequality and greater social division", and the use of charity foodbanks to supplement inadequate benefit payments.

They identified the particular groups most exposed to poverty. These included many women, many families, many children, people with disabilities, the elderly, the unemployed, low-paid workers, people with health problems, Maori, and Pacific Island people. The report recorded pages of verbatim statements under various categories. There was one major recommendation from the report: the establishment of an adequate minimum income as of right, to enable all to belong and participate. It is noteworthy that the recommendation echoes a relative definition of poverty along the lines of the 1972 Royal Commission on Social Security.

A variety of self-report and descriptive studies have been undertaken in New Zealand, both locally and nationally. These studies helped highlight the changing New Zealand circumstances.

The Report of the People's Select Committee and some aspects of the self-report research have contributed important qualitative data to our understanding of poverty that are not available in other approaches. The comprehensive focus on the poverty bias to cultural and gender groupings in *Poor New Zealand*, and the emphasis in the People's Select Committee Report, help identify the structural make-up of those in hardship. There is, however, a lack of recent work on material well-being as opposed to the more focused economic approaches.

Income distribution and equality approaches

Because income is the necessary resource for food, shelter, and other necessities in modern capitalist economies, the study of income, particularly income distribution and equality, has made a major contribution to the analysis of poverty. The following studies illustrate the range of interesting research being carried out in New Zealand on income distribution and equality measures. They can be divided into those that simply focus on income distribution and those that seek a more complex measure of equality as well. Those that focus simply on income distribution will be addressed first.

The Department of Statistics (1991) examined income trends in New Zealand between 1981/82 and 1989/90. It analysed personal and household income using national data collected by the Department. These included its Wage and Salary Earner Statistics, its Household Expenditure and Income Survey (HEIS), and A Simulation System for Evaluating Taxation (ASSET) model.

It reported that the purchasing power of the top income quintile increased by 10 per cent, compared with a decline of 4–6 per cent in the bottom three quintile groups over the nine years. It noted that benefit income and taxation did redistribute some income, but did not remove the marked disparities between quintile groups. They "probably did more to improve the positions of those on higher incomes than those on lower incomes". Gender was a key determinant of income, with 30 per cent of females and 10 per cent of males in the bottom quintile. The Department noted that paid work was the most important determinant of individual income level: "It protects the earner from poverty."

These findings probably reflect the tax changes of the Labour government in the mid-1980s, referred to in the first section of this paper. They also help to emphasize the significance of employment over citizenship to stay out of poverty in the New Zealand welfare state. Further evidence of the unequal redistributive impacts of tax and benefit changes was also revealed in a further study.

O'Brien and Wilkes (1993) analysed income distribution changes over a similar period – 1984–90. They used the Department of Statistics' survey data, such as the Household Expenditure and Income Survey, the consumer price index, and the real disposable incomes index. They found that the benefit increases were 18 per cent less than the rate of inflation increase for the period.

Real disposable income for wage and salary earners had dropped for low- and middle-income earners in quintiles 1 and 3, whereas top earners in quintile 5 experienced an increase. We should note that there is some concern about how well the Real Disposable Income Index tracks market incomes, and how sensitive it is to variations within industries. Though still being published by the Department, it may be withdrawn. Nevertheless, average tax rate changes for the same groups revealed a 9 per cent increase for low earners in quintile 1, a 3 per cent decrease for middle-income earners, and a 10.5 per cent decrease for top earners. When indirect tax was also taken into account deciles 1 and 10 were both taxed at around 48 per cent. The authors noted, "all the Tables point in the same direction, namely that the most significant increases and improvements in economic position have been at the higher end of the income scale".

These two studies analysed data from the period prior to the fundamental social policy changes of the National government in 1990 and 1991. Waldegrave and Frater (1991), however, led a research team that measured the cost of those announced policy changes in household disposable income for different family types, in household income quintiles. All data were sourced from HEIS, and the ASSET model allowed both tax calculations and categorization by family type. The Real Disposable Incomes Index was not used.

The results indicated that beneficiaries in the lowest quintile lost around NZ$2,500 per annum, which was 20 per cent of their disposable income. For the middle quintile, the loss was around NZ$900 or 4 per cent of their disposable income, and for quintile 5 it was around NZ$1,100 or 2 per cent of disposable income. The results also revealed that households with children lost considerably more, in every quintile, than households without children. The measure that caused the greatest loss of income in the bottom two quintiles was the change in housing assistance.

Whereas these studies have focused almost solely on income distribution, others have also tried to measure equality by separately analysing redistribution through social welfare cash payments, other public social services, and taxation. One such project is an Australian and New Zealand study of income equality and redistribution (Saunders et al. 1988). The researchers reproduced, for Australia and New Zealand, the original comparative analysis for six countries in the Luxembourg Income Study (LIS). The New Zealand analysis utilized the HEIS 1981–2 and the ASSET model, noted above. Calculations were sought for the four basic LIS cash income concepts of factor income, market income, gross income, and net income.

New Zealand demonstrated the highest redistributive impact of direct taxes on unadjusted income of the two countries, and of the original six: Canada, Germany, Norway, Sweden, the United Kingdom, and the United States. When adjustments were made for family size through the use of an equivalence scale, however, New Zealand fell considerably to rank with Canada, below the Scandinavian countries and the UK. The authors stated that, overall, "neither [New Zealand nor Australia] can be accurately described as relatively egalitarian" when compared with the other six countries.

Snively (1987a, 1987b, 1988, 1993) has carried out an extensive analysis of the distributive effects of governments' budgets. Utilizing the Department of Statistics' HEIS, the ASSET Model, and SEBIRD (Study of the Effect of the Budget on Income Redistribution and Distribution), she measured the budgets' redistributive impacts (1981/82, 1985/86, and 1986/87). The results demonstrated that the impact of the budgets was redistributive for all three years, when analysed by household market income deciles.

Analysis by household type revealed distributive differences. Two adult national superannuitant households had the greatest net gains. Households with two or more adults (non-superannuitant) and no children had a smaller share of market income adjusted for the budget (MIAB) than market income. However, the results concerning households of adults and children were the most disturbing. All such households, with the exception of single-parent households, ended up with an MIAB slightly below their share of market income. Although single-parent households gained through budget redistribution, their share of market income was very low, and their share of MIAB was well below their share of the population, suggesting very low incomes and gender bias.

These themes of increasing relief for those on higher incomes and increasing burdens for those on lower incomes, particularly households with children, persist through the poverty research of the past decade. Because women are much more involved than men in child-rearing and have less access to market income, they are disadvantaged more than men. The themes reappear in two published reports of the New Zealand Planning Council entitled *For Richer and Poorer* (Income Distribution Group 1988) and *Who Gets What?* (Income Distribution Group 1990).The reports drew on Snively's work, and went on to analyse Maori incomes, gender differences in incomes and personal wealth distribution.

They found that real incomes fell during the 1980s, and income became less equally distributed among households after 1985. The main reasons suggested for this, as we have noted before, were the changes to taxation and the increase in joblessness. The reports noted the persistent gap between male and female average incomes, caused by lower participation in paid work, child-care responsibilities, and occupational segregation. Despite the increasing participation rate of women in wage and salary positions, the average full-time earnings of women were 72.6 per cent of those of men in 1986/87. This was a small change from 72.2 per cent seven years before in 1981/82. The reports noted that personal marketable wealth was more unequally distributed than income.

These reports confirmed that Maori were economically disadvantaged, with a larger proportion of Maori households in the lower income brackets. As with other low-income groups, their position deteriorated during the 1980s. The relative income position of Maori households fell from an average position in relation to all other households in 1981/82 to 21 per cent below the all household average in 1987/88.

The cultural and gender focuses of these studies are important, because there is little numerical research on special groups in New Zealand. The HEIS data, which are most often used in income distribution studies, do not carry large enough samples of sub-groups of the population for statistical reliability. It is possible to calculate the overall poverty incidence for Maori, but the data are much less reliable for family-type sub-groups. They are not sufficiently reliable to calculate the overall poverty incidence for the Pacific Island population. This presents a problem for New Zealand researchers, because identifying the sub-grouping make-up of poverty incidence is important for understanding its structure and devising effective ways of eliminating it.

Income inequality statistics for Maori and Pacific Island people are often gleaned from the Department of Statistics Census and Household Labour Force Survey. The 1991 census noted that the median income for full-time employed men was NZ$27,279, whereas for Maori men it was NZ$22,750, and for Pacific Island Polynesian men NZ$19,846. For all women it was NZ$21,461, for Maori women NZ$18,572 and for Pacific Island Polynesian women NZ$17,438. These figures clearly indicate gender and cultural bias. The cultural bias is even greater if the disproportionate number of Maori and Pacific Island people, who currently live off benefits because of unemployment, is taken into account. The official unemployment rate for all New Zealanders in the workforce is 9.1 per cent, whereas for Maori it is 22.9 per cent and Pacific Island people 22.1 per cent (Household Labour Force Survey, for March 1994).

Mention should be made of two other fiscal incidence studies that followed directly from the Planning Council Reports. The Department of Statistics' Fiscal Impact on Income Distribution study (1990) recalculated the earlier report in terms of equivalent income. Stocks et al. (1991) simulated the benefit reductions of 1991, alongside the earlier report results, using the Gini coefficient. The results showed increasing inequality in disposable income.

The final piece of research in this section, a project of the Massey University Social Policy Research Centre (Chatterjee and Srivastav 1992), is significant in that it has established a longitudinal database for the study of income distribution and inequality in New Zealand. *The Statistics of Incomes and Income Taxes*, published by the Inland Revenue Department in 1983–4, were the subject of analysis in this first study of inequality estimates. Subsequent reports will expand on the time-frame.

The measurement of income inequality adopted positive (without reference to any notion of social welfare) and normative measures (start from a social welfare function). The Gini coefficient was used to extract positive measures. An additional positive measure along the lines of the Nelson Inequality Index, using the ratio of the income of the highest 5 per cent and the lowest 20 per cent of the given distributions, was also employed.

The Atkinson Index was chosen as the normative measure to assess the social welfare implications resulting from income inequality changes. The Gini coefficients were then decomposed to assess inequality changes between the genders and between income components.

The findings indicated that the female population recorded a significant overall measure of inequality, both positive and normative. The income distribution was also more unequal for them than for either the male population or the total population. Two factor incomes, those of wages and salaries and business income, were found to be inequality enhancing, while all non-factor incomes were inequality reducing. The authors noted that "results based on the normative measure, demonstrate dramatically the potential gain in the welfare of society that could result from a more equal distribution of existing incomes".

The income distribution and equality studies, although recognizing significant redistributive elements in the New Zealand welfare state, consistently demonstrate basic inequalities. Furthermore, the inequalities have been growing with the tax and benefit changes. Only a small number of studies in this section, however, address data since the major social policy reforms in 1991. Those that do, indicate that the trend has continued.

Where cultural and gender sub-groups are analysed, bias against women, Maori, and Pacific Island people is revealed. Unfortunately, the New Zealand databases are not adequate to analyse many sub-groups reliably. The longitudinal database being developed at Massey University can be expected to make a major contribution to research on income distribution and equality in the future. Finally, it is noteworthy that recent equality research in New Zealand has not adopted more complex measures of material well-being alongside those of economic well-being, as is characteristic of some other countries. This reduces the breadth of New Zealand research in this area.

Poverty line approaches

The use of equivalence scales is fundamental to most poverty line research, as it is to much of the income distribution and equality approaches. An equivalence scale is a means of adjusting incomes so that differing sizes and types of households can be compared.

By the early 1970s (Cuttance 1974) equivalence scales had been developed in New Zealand. The better-known ones, however, were developed by Easton (1976) and Jensen (1978). Easton took a budgetary approach, by using the New York Family Budget quantity weights (Community Council of Greater New York 1970), with New Zealand prices. Jensen derived his scale from a blend of McClements' (1977, 1978) method, a sophisticated food expenditure approach, and Rainwater's Boston study (1974) attitudinal approach.

Easton's basic parameters of the scale were: single adult 0.64; couple 1.00; couple and four children 1.83. Jensen's parameters were 0.6, 1.00, and 2.00, respectively, for the same household types. Easton (1979) later presented another equivalence scale formula based on the Household Expenditure Survey, and Jensen (1988) subsequently revised his scale.

Today Jensen's scales are the most commonly accepted in New Zealand (Rochford and Pudney 1984; Rutherford et al. 1990). They are criticized (Brashares and Aynsley 1990; Easton 1979), though, as being somewhat arbitrary. Easton (1979) has argued that there is still a lot of work to be done in this area and that we cannot continue to depend on foreign studies. The Department of Statistics (Smith 1989) is currently working to see if an empirically derived scale can be developed for New Zealand.

Easton has a long history of poverty research in New Zealand. His work in the 1970s drew the earlier contributions and thinking (including the relative definition of poverty outlined in the 1972 Royal Commission on Social Security) into a coherent paradigm and research programme. Benefits had been rising towards this level during the previous decade. The Commission's definition, in terms of "participation" and "belonging", Cuttance's (1974) study of large families in Hamilton, the Department of Social Welfare's (1975) survey of the elderly, and Easton's (1976) national estimates of poverty in New Zealand were all marks of poverty research development in New Zealand that could stand alongside any in the world.

Though carried out before the period of this overview of poverty research, Easton's study deserves to be mentioned. He used what he refers to as the Pensioner Datum Level (PDL), set at the married rate of the age benefit in force at the time, as his standard of relative poverty. As a result of changes to the benefit system, his later writings (Easton 1980, 1986) refer to the Benefit Datum Line (BDL), which was set at the same standard but was in fact the social security benefit rate for a married couple. He considered the PDL/BDL to be socially defined. The level had been recommended by the Royal Commission on Social Security (1972) as a relative standard, and benefits were set at that level and adjusted for inflation up to the time of his study.

Easton took his income data from the newly instituted Household Expenditure and Income Survey (1973/74 figures), and used his original equivalence scales to gain different household measures of a standard of living equal to that of the married rate of the aged benefit. He then calculated the number of households whose income did not attain the standard. The results suggested that 18 per cent of the population or 550,000 persons lived below the poverty line; 20 per cent of persons over 60, 25 per cent of children, 20 per cent of their parents, and 5 per cent of other adults fell below the Pensioner Datum Line.

This study marked a turning point in the history of poverty research in New Zealand. Given the official definition of that time, Easton's research programme provided a coherent, national estimate of those below the standard. It also provided a method for future studies. Unfortunately, the initiative was not taken up and funded by government. Nevertheless, in a later study (Easton 1986), he commented that there were more working families with children below the BDL than all other households, and that their standard of living had tended to slip behind that of social security beneficiaries.

Since Easton's major work in the 1970s, two poverty line initiatives have been taken by New Zealand government departments. The research programmes, however, were very different. Rochford and Pudney (1984), in a Department of Social Welfare study, applied three equivalence scales to a New Zealand household income distribution taken from the Department of Statistics' 1981 Social Indicators Survey. The scales used were Jensen (1978), those implicit in the benefit system, and a theoretical scale based on the assumption that all members of a household require the same amount of income.

The results found that the choice of scale had a marked effect on the number of households below a poverty line. They chose an equivalent income level between the married sickness benefit rate and the married national superannuation rate as a poverty line. Their study revealed that 8.1 per cent of households and 10.2 per cent of individuals fell below the line. The results supported Easton's contention that many New Zealanders lived in poverty, but the estimate in this study was around half his number.

The second initiative came from Treasury, the Ministry of Finance in New Zealand. It commissioned Brashares and Aynsley (1990, Brashares 1993) to carry out a study on income adequacy standards. This was a quite different research programme, which provided relative and absolute measures of poverty. The reintroduction of absolute poverty line standards is indicative of a shift in official thinking about poverty that has already been alluded to in this paper.

The researchers used a variety of income adequacy standards based on different methodologies, with the standards ranging from subsistence- and absolute-based measures to more generous relative ones. Three food-cost multipliers were used to generate three possible absolute income standards. The Otago food plan, calculated by FOCAS Information Service at Otago University, was employed for estimates of food costs. The relative income standards involved 50 per cent of median household income for two different family types, and two relative earnings standards. These were the award rate for a builder's labourer and 65 per cent of the average wage.

They quantified numbers in poverty, the poverty gap, and a severity index. The HEIS was used as the basis of their analysis, and government housing assistance, using Housing Corporation data, was added to income. The Jensen equivalence scales (1988) were employed.

The results ranged from measures of 2.7 per cent of the New Zealand population below the standard (the most stringent multiplier, the food plan × 3) to 13.3 per cent (65 per cent of the average wage). The authors noted that, if the two extremes were disregarded, the other measures clustered within a range of about NZ$3,000, identifying 4.4–7.8 per cent of the population below the remaining standards. The incidence of poverty was reduced after housing assistance was taken into account.

This study has been heavily criticized (Campbell 1991; Easton 1991, 1994; Sinclair 1992; Stephens 1992). Criticisms have included the use of a low-cost rather than a normal food plan, the inaccuracy of the food prices, major differences in regional housing prices, the addition of housing subsidies to the income of state house tenants and not adding net imputed rents to the income of owner-occupiers, the arbitrary use of multipliers, disregard for other New Zealand studies, and non-value-free assumptions. Easton (1991) and Stephens (1992) argued that Brashares and Aynsley's preferred standard, the low-cost food plan times four, was the basis for setting the significantly reduced level of the unemployment benefit in April 1991.

It is little wonder that controversy has surrounded the move away from a relative and participatory measure of poverty. It is also not surprising, given the extraordinary changes in social policy in New Zealand outlined in this paper over the past decade, that a definition based on minimal needs would again emerge.

The final piece of research to be outlined in this overview is a major study in progress that is adopting a quite different methodology. The Foundation for Research, Science and Technology is funding the New Zealand Poverty Measurement Project, which is carrying out a multidisciplinary and multi-agency study (Stephens, Waldegrave and Frater 1995). The agencies involved are a business economic research unit, a university public policy department, and a community-based social policy research unit.

The study is attempting a combination of a "top–down" macro analysis with a "bottom–up" micro analysis. The measurements reflect the results of the two parallel studies, with a poverty level based on focus group results. The macro study has been investigating the data of the Department of Statistics Household Expenditure and Income Survey (HEIS). These data are then run through the ASSET model, and the Jensen (1988) equivalence scales (set for two adults and one child) are used. Both income and expenditure data are extracted.

In order to make the results internationally comparable, calculations at both 50 per cent and 60 per cent of the median equivalent household disposable income and expenditure lines are extracted, after the application of the equivalence scales. This enables the flexibility of four measures to relate to other studies, and in particular the emerging data from the micro study. The Luxembourg Income Study (LIS), for example, uses an income measure, whereas the European Union (Eurostat) employs an expenditure measure.

The use of a percentage of a median is, of course, arbitrary. It may or may not reflect poverty in New Zealand. Its main advantage lies in the ability to relate to other established studies and commonly used measures of poverty. The micro-study component of this research, on the other hand, anchors the analysis in the experience of those who live on low and/or inadequate incomes.

The micro study has employed a focus group methodology. The initial focus group work for this project was carried out by Cody and Robinson (see Stephens, Waldegrave and Frater 1995). It involves a series of meetings with low-income families, during which they estimate "minimum adequate household expenditure" for different family types.

The focus groups have been designed to encourage the low-income households to share their experience and knowledge with their peers. A consensus is not required, but a common mind is sought. In reality, those who live on low incomes provide an expert consultation of the day-to-day practical and necessary expenditures, which the facilitator receives and conveys to the project. As the project has developed, another estimate has been sought, that of "minimum expenditure that is fair for households to participate adequately in their community". This enables a relative and participatory estimate from the low-income householders.

The macro and micro studies have developed separately, but already the micro data are having an impact on the macro findings. The results from the various focus groups have been remarkably consistent, despite the fact that they were carried out quite separately, with different communities (cultural and household types), and without contact between the groups. Early results indicate estimates for minimum adequate household expenditure clustering around 60 per cent of the median equivalent household disposable income for two-parent households. The estimates for single-parent households were consistently higher, suggesting the Jensen equivalence scales may not be appropriate, especially for this group. Cody and Robinson, in the earlier work, considered the scales underestimated the costs for teenage dependants.

The focus group findings have indicated that the line should be drawn at 60 per cent of median equivalent household income or expenditure (around NZ$500 or less per annum between them throughout the 1990s – Department of Statistics), rather than 50 per cent. This is comparable with the LIS which uses 50 per cent and 60 per cent of median equivalent household disposable income. We should note that New Zealand's decline in living standards in the past decade is such that 50 per cent of median equivalent household disposable income in 1984 is much the same as a 60 per cent measure in 1993 (Department of Statistics). The 60 per cent measure is also comparable with the Eurostat (1991) measure, which is 50 per cent of *mean* equivalent household expenditure. In 1990, 50 per cent of the *mean* equivalent household expenditure in New Zealand was virtually the same as 60 per cent of *median* equivalent household expenditure (Mowbray 1993).

To date, the macro data have been extracted for the 1983/84–1992/93 years. Using the preferred 60 per cent income and expenditure measures for the 1992/93 year, Table 10.1 indicates that 10.8 per cent of households and 13.4 per cent of persons, and 21.1 per cent of households and 20.4 per cent of persons, respectively, were poor. A second estimate was also taken after housing costs, lifting the preferred measure to 18.5 per cent of households and 20.5 per cent of persons on the income standard, and 24.1 per cent of households and 23.2 per cent of persons on the expenditure standard.

In Table 10.1, the results have omitted households with

Table 10.1 Incidence and severity of poverty, in New Zealand 1992/93

Poverty measure	Poverty incidence		Per cent reduction transfers		Poverty gap	Mean total equivalent	
	Households	People	Households	People	Mean % poverty line equivalent $	$	$m
Before housing costs							
50% expenditure	12.9	12.3	–	–	24.9	3,624	502.2
50% income	4.3	5.5	88.2	82.4	13.6	1,905	87.26
60% expenditure	21.1	20.4	–	–	26.0	4,530	1,026
60% income	10.8	13.4	73.2	68.4	15.8	2,656	308.5
After housing costs							
50% expenditure	16.6	16.0	–	–	31.6	3,808	676.1
50% income	11.5	13.3	71.1	61.3	31.6	3,699	454.2
60% expenditure	24.1	23.2	–	–	32.2	4,656	1204.4
60% income	18.5	20.5	58.1	51.3	29.7	4,169	826.5

Source: Frater, Stephens and Waldegrave (1994). Derived from Department of Statistics.

self-employed losses and those reporting expenditure three times or more greater than their income. The removal of these "outliers", which are not omitted in the LIS, decreases the number of households and persons in poverty.

The column "percent reduction transfers" indicates the extent to which the payment of social security benefits reduces the incidence of poverty. For the 60 per cent income standard, social security payments reduce poverty incidence in households by 73.2 per cent. The poverty gap, that is the severity of poverty, was also estimated by calculating the extent to which households fall below the poverty line. For the 60 per cent level, using income, the mean poverty gap was NZ$2,656 per household, or 15.8 per cent of the poverty line, which would cost NZ$309 million to remove. For the 60 per cent expenditure level, the mean poverty gap was NZ$4,530 per household, or 26.0 per cent of the poverty line, which would cost NZ$1,025.95 million to remove.

The calculations indicate a significant increase of poverty incidence, at every measure, after housing costs have been taken into account. This points to the major part housing plays in the occurrence of poverty in New Zealand. The measures are so marked that the project team consider that a poverty line in New Zealand should be calculated after housing costs have been taken into account.

The research team has agreed to the setting for a poverty standard. In the light of the focus group results and the greater accuracy of income as opposed to expenditure figures, 60 per cent of median equivalent household disposable income after housing costs has been chosen as the poverty standard.

The 60 per cent measure before housing costs are taken into account indicates the amount of income people need to be free of poverty, not including variations in housing costs. Because housing costs are so variable and major changes in both lending and renting policies have occurred in New Zealand as a result of the social policy changes, housing expenditures have a disproportionate impact on low and modest incomes. By using the 60 per cent standard after housing costs are taken into account, a more realistic costing of poverty elimination can take place. This latter measure will include the significant rental increases for those in state houses and young families on modest incomes whose mortgage payments push them below the poverty standard.

Using the currently preferred standard, i.e. 60 per cent of median equivalent household disposable income after housing costs, the cost of bringing all New Zealanders above that line for the 1992/93 year would have been NZ$308.51 million in terms of income adequacy and NZ$826.45 million in terms of income adequacy and housing expenditure, as Table 10.1 shows.

It is interesting to note that the cost of bringing all New Zealanders above the poverty line in the 1990/91 year, immediately prior to the social policy reforms that cut benefits and moved state rentals to market rates, would have been NZ$157 million less, using this standard.

The study is developing a database that enables the poverty measures to be calculated for household types, household numbers, the elderly, children, tenure of dwelling, and owner of dwelling. The focus group work is being carried out in different regions. Note is being taken of differing transport costs, housing costs, and cultural budget items. The Maori and Samoan focus groups in this study, for example, both replaced a budget category, common to all the other groups, with an extended family commitment category. The second estimate concerning participation in the community is also being sought.

Another early result has raised a problem with the use of a relative poverty line rather than an absolute one. Between 1983 and 1993, living standards in New Zealand reduced greatly, largely because of high unemployment and the social policy changes, such that the median equivalent household disposable income has fell 17 percentage points. As a result, there was a fall in the real poverty line. Despite this, the poverty rate has remained essentially constant. Had we used the 50 per cent income measure in 1983/84 as an absolute standard, for example, the household incidence, before housing costs were taken into account would have been 4.3 per cent, and would have grown to 11.3 per cent by 1992/93.

This sort of consistent decline does not appear to have occurred in other similar countries. It raises problems for comparative research when using this sort of relative measure, but it may help explain the consistency of the focus group results. Furthermore, it underlies the importance of the micro aspect of the study in terms of determining the poverty line as a percentage of the median at any one time. The focus group results indicate the adequacy of income at a given period. As a percentage of household income, the figure will vary from year to year according to the adequacy of the income available to low-income families. Significant changes to the poverty standard, as a percentage of median equivalent household disposable income, could be expected, for example, as a result of major social policy changes or changes in the macro economy.

This latest project is interesting because of the range of measures it produces, and the consequent ability it gives for comparisons with a variety of studies in New Zealand and internationally. Because there is an arbitrary element to any poverty standard, the range of measures give a fuller picture. The micro work anchors the standard in the experience of those who have to live on low incomes. In a real sense, the poor have their say and share their practical expertise in the measure. The project is new, of course, and there is a need for a wider range of focus group work to test the current results, and this is being undertaken.

The use of HEIS data enables an historical series of results that can be consistently maintained in the future, which is very important in developing a credible standard to quantify the increases and decreases in poverty. The project has endeavoured to draw a broad group of researchers together to reflect and advise at each stage of the research. To this end a Statistical Working Party, consisting of independent academic, community, and economic researchers alongside Department of Statistics and Social Welfare researchers, has been instituted to advise the project team.

The various approaches to national poverty line research in New Zealand have all been quite different. As yet, neither an official poverty line nor methodology has been agreed to. Because fundamental economic and social reforms have taken place in the past decade, there has been no official standard to quantify the increases/decreases in poverty. It can only be hoped that developments in this field will lead to an agreed measure.

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