ALLEVIATING POVERTY
issues and options

Introduction

New Zealand was among the first countries in the world to implement a relatively comprehensive welfare state. But almost 80 years after the passage of the Social Security Act in 1938, serious social problems persist, not least significant levels of poverty – especially child poverty – and income inequality. In recent years, such problems have attracted growing public concern, as reflected in opinion polls and political debate.


Admittedly, income inequality (using the Gini coefficient and the Palma measure) does not appear to have increased since the mid-1990s. Nevertheless, it rose very substantially between the late 1980s and the mid-1990s (e.g. from a Gini of around 27 in the mid-1980s to around 33 a decade later) (Perry, 2017a, pp.80-90; Rashbrooke, 2013). Likewise, poverty rates increased dramatically during these years, particularly when assessed after deducting housing costs from incomes. For children, the poverty rate in the mid-1990s on one commonly used measure (i.e. 60% of median disposable household income, after adjusting for housing costs) was nearly three times higher than a decade earlier, and has remained close to double the rate of the mid-1980s ever since (Perry, 2017a, p.140). Such outcomes are troubling and rightly deserve public and political attention. Hopefully, they will generate thoughtful discussion during the 2017 election campaign.

This article briefly discusses the nature and measurement of poverty in developed countries, outlines the main trends in poverty rates in New Zealand over recent decades, comments on why poverty matters, and assesses recent government policy changes designed to alleviate poverty, especially child poverty. It also outlines what further measures will be required if New Zealand is to meet its commitments under the United Nations Sustainable Development Goals to halve poverty rates by 2030. In effect, this would entail returning poverty rates to the levels witnessed during the mid-
1980s and reducing material hardship
to Scandinavian levels.

**Measuring poverty**

In brief, poverty means not having
enough of those things which most people
regard as essential; it implies insufficient
resources to satisfy basic human needs or
meet an acceptable minimum standard of
living (Boston and Chapple, 2014, pp.22-
5; Perry, 2016, pp.91-7; Stephens, 2013). By contrast, inequality is about having more or less of something (e.g. income or wealth) than someone else. In developed countries like New Zealand there are two primary ways of measuring poverty: those based on income and those based on levels of material deprivation (or hardship). Both methods use various criteria to determine appropriate thresholds or benchmarks: those living in households with incomes or material deprivation rates below the relevant thresholds are deemed to be living in poverty. The two approaches capture different aspects of poverty and both have an important role to play in any measurement regime.

The most commonly used income-
based poverty thresholds, at least in
developed countries, are either 50% or
60% of median disposable household
incomes (i.e. after deducting income taxes
and including transfers). Such poverty
rates are thus a relative measure and will
vary depending on the median income, the
income threshold adopted, whether or not
housing costs are taken into account (and,
if so, how), and the nature of the
equivalence scale adopted (i.e. how
adjustments are made for the size and
composition of households). Significantly,
income-based poverty rates are sensitive to
relatively small movements (up or down)
in the generosity of social assistance,
including benefit payments and tax credits.
This is because such changes can shift large
numbers of families above or below
particular poverty thresholds.

Income-based poverty measures make
no allowance for the other resources to
which people may have access (e.g.
savings, intra-family transfers, charitable
donations, etc.), whether they own
property or a business, or their level of
debt. Accordingly, it is helpful to
supplement such measures with
assessments of material deprivation (see
Perry, 2015, 2017c). The latter measures
attempt to capture the actual day-to-day
living standards or circumstances of a
family. They do this by assessing whether
families lack important consumption
items because they cannot afford them.
The items selected are generally those
which most people consider to be essential
to meet basic needs or highly desirable if
people are to participate fully in society.

Table 1: Deprivation rates* in 13 countries comparing children with older people and the
total population in 2007 (Europe) and 2008 (New Zealand)

<table>
<thead>
<tr>
<th>Country</th>
<th>Children 0-17</th>
<th>Aged 65+</th>
<th>Total population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>6</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Norway</td>
<td>6</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Sweden</td>
<td>7</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Spain</td>
<td>9</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Germany</td>
<td>13</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Slovenia</td>
<td>13</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Ireland</td>
<td>14</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>18</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Italy</td>
<td>18</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>20</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Hungary</td>
<td>42</td>
<td>35</td>
<td>38</td>
</tr>
<tr>
<td>Poland</td>
<td>39</td>
<td>41</td>
<td>44</td>
</tr>
</tbody>
</table>

* The deprivation rates in this table are based on the proportion of households who lack at least three items from a list of nine because they cannot afford them. All nine items are regarded as essential by the majority of the population.

Source: Perry, 2009, pp30-33

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 (2017a, p.125)

1860s and reducing material hardship
rates to Scandinavian levels.

**Alleviating Poverty – issues and options**
that are relatively wealthy. Hence, deprivation rates across all age groups are generally higher in Eastern European countries than in their richer counterparts in Western Europe (see Table 1). But variations in real per capita incomes are not the only reason deprivation rates differ. After all, some countries with broadly comparable living standards (e.g. Germany and Sweden) have different deprivation rates. Also, some countries with significant childhood deprivation rates (e.g. 12% or more, as in Britain and New Zealand) have much lower deprivation rates among the elderly.

Not all countries, however, have such marked differences in poverty rates across different age groups. The fact that countries with comparable overall living standards (e.g. Germany and Sweden) have different deprivation rates. Also, some countries with significant childhood deprivation rates (e.g. 12% more, as in Britain and New Zealand) have much lower deprivation rates among the elderly.

Poverty rates in New Zealand
Since the early 1980s poverty rates in New Zealand have changed markedly (see Boston and Chapple, 2014; Dale, O’Brien and St John, 2011; Perry, 2017a, 2017b, 2017c). There have also been notable changes across age groups and household types. As highlighted in Figure 1, income-based poverty rates (using a moving line or relative measure, after adjusting for housing costs) increased substantially for most age groups in the late 1980s and early to mid-1990s. As previously noted, on this measure the poverty rate for children (aged 0-17 years) almost tripled during these years, to close to 30% in 1994. It subsequently eased back to about 22% in 2007, due in part to the reintroduction in the early 2000s of income-related rents for families living in state housing and the implementation of the Working for Families tax credits during 2005-07. It

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**Table 2: The number of poor children in New Zealand based on selected poverty thresholds, 2001-16 (rolling averages since 2008)**

<table>
<thead>
<tr>
<th>HES year</th>
<th>Before housing costs (BHC) are deducted</th>
<th>After housing costs (AHC) are deducted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BHC ‘anchored line (2007)’</td>
<td>Before housing costs ‘moving line’</td>
</tr>
<tr>
<td></td>
<td>50% (07 ref)</td>
<td>50%</td>
</tr>
<tr>
<td>2001</td>
<td>225,000</td>
<td>120,000</td>
</tr>
<tr>
<td>2004</td>
<td>175,000</td>
<td>150,000</td>
</tr>
<tr>
<td>2007</td>
<td>135,000</td>
<td>135,000</td>
</tr>
<tr>
<td>2008</td>
<td>130,000</td>
<td>135,000</td>
</tr>
<tr>
<td>2009</td>
<td>115,000</td>
<td>130,000</td>
</tr>
<tr>
<td>2010</td>
<td>105,000</td>
<td>135,000</td>
</tr>
<tr>
<td>2011</td>
<td>120,000</td>
<td>145,000</td>
</tr>
<tr>
<td>2012</td>
<td>115,000</td>
<td>135,000</td>
</tr>
<tr>
<td>2013</td>
<td>105,000</td>
<td>125,000</td>
</tr>
<tr>
<td>2014</td>
<td>-</td>
<td>135,000</td>
</tr>
<tr>
<td>2015</td>
<td>90,000</td>
<td>145,000</td>
</tr>
<tr>
<td>2016</td>
<td>75,000</td>
<td>140,000</td>
</tr>
</tbody>
</table>

Source: Perry, 2017b, p.49

HES refers to the Household Economic Survey
There are approximately 1,060,000 children (0-17 years) in New Zealand; 40% of median AHC income poverty figures and 50% of BHC figures are not reported for HES 2014 because of data issues for some beneficiary incomes.

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**Table 3: Material hardship rates (%) and numbers of children: rolling two-year averages**

<table>
<thead>
<tr>
<th>Household Economic Survey year</th>
<th>MSD’s less severe hardship threshold, equivalent to the European Union’s ‘standard’ threshold</th>
<th>MSD’s more severe hardship threshold, equivalent to the European Union’s ‘severe’ threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate (%)</td>
<td>number</td>
</tr>
<tr>
<td>2008</td>
<td>16</td>
<td>170,000</td>
</tr>
<tr>
<td>2009</td>
<td>16</td>
<td>180,000</td>
</tr>
<tr>
<td>2010</td>
<td>18</td>
<td>190,000</td>
</tr>
<tr>
<td>2011</td>
<td>20</td>
<td>220,000</td>
</tr>
<tr>
<td>2012</td>
<td>19</td>
<td>200,000</td>
</tr>
<tr>
<td>2013</td>
<td>16</td>
<td>175,000</td>
</tr>
<tr>
<td>2014</td>
<td>15</td>
<td>155,000</td>
</tr>
<tr>
<td>2015</td>
<td>14</td>
<td>155,000</td>
</tr>
<tr>
<td>2016</td>
<td>12</td>
<td>135,000</td>
</tr>
</tbody>
</table>

Source: Perry, 2017b, p.48

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Poverty rates in New Zealand
Since the early 1980s poverty rates in New Zealand have changed markedly (see Boston and Chapple, 2014; Dale, O’Brien and St John, 2011; Perry, 2017a, 2017b, 2017c). There have also been notable changes across age groups and household types. As highlighted in Figure 1, income-based poverty rates (using a moving line or relative measure, after adjusting for housing costs) increased substantially for most age groups in the late 1980s and early to mid-1990s. As previously noted, on this measure the poverty rate for children (aged 0-17 years) almost tripled during these years, to close to 30% in 1994. It subsequently eased back to about 22% in 2007, due in part to the reintroduction in the early 2000s of income-related rents for families living in state housing and the implementation of the Working for Families tax credits during 2005-07. It
subsequently rose to almost 30% in 2010 (following the global financial crisis) before declining modestly since then (to around 27%).

Table 2 shows that income-based poverty rates (in this case for children) differ significantly depending on:

- the specific poverty threshold chosen (e.g. 50% or 60% of the median income);
- whether the measure employed is anchored to a specific reference year (and thus held constant in real terms, but adjusted annually for price inflation) or is based on a moving line that alters when the median incomes change; and
- the treatment of housing costs (i.e. whether or not housing costs are deducted).

Poverty rates are typically lower before housing costs are deducted than after they are deducted. These differences reflect the relatively high cost of housing in New Zealand. Hence, enhancing housing affordability must be a crucial component of any long-term anti-poverty strategy.

Depending on the income poverty threshold selected, there were between 75,000 and 290,000 children living in income poverty during 2015-16 (Perry, 2017b, p.49). Likewise, depending on the hardship threshold used, the number of children experiencing material hardship during the same period was between 70,000 and 135,000 (see Table 3).

As previously noted, rates of child poverty compare unfavourably with those of other age groups, especially the elderly. This applies both with respect to income-based measures (see Figure 1) and material deprivation measures (see Figure 2). The higher rates of poverty among children reflect a failure by governments over several generations first, to design and implement sufficiently generous family assistance programmes, and second, to index such programmes to prices and/or wages. By contrast, there has been a multi-party commitment since 1993 to set the rate of New Zealand superannuation at a level that minimises income poverty among the elderly, and adjust the rate in line with movements in both prices and average ordinary time weekly earnings. The living standards of superannuitants are thus protected in real and relative terms.

As highlighted in Figure 3, there have been marked differences since the early 1990s in child poverty rates depending on whether parents are dependent on a welfare benefit or in paid employment. In the late 1980s only about 20% of children in ‘workless’ households were in poverty (using a fixed-line or constant value measure based on 60% of median disposable household income after deducting housing costs); by the early 1990s the figure had almost quadrupled. Despite various social policy reforms in the early to mid-2000s, the poverty rate for children in ‘workless’ households was still around 60% in 2007. By contrast, the poverty rate for children in ‘working’ families (on the same measure) has barely exceeded 20% since the early 1980s, although the rate in the mid-1990s was certainly higher than during the previous decade. The discrepancy between the experience of ‘workless’ and ‘working’
households reflects several major policy changes, notably the substantial cuts in the real value of welfare benefits in the early 1990s and the introduction of an in-work tax credit in the mid-2000s.

Importantly, poverty rates among Māori and Pasifika children are around double those among Pākehā/European children (Perry, 2017b, p.50). Similarly, Māori and Pasifika children are almost twice as likely to be living in severe income poverty and face a higher risk of remaining in poverty for extended periods of time (Imlach Gunasekara and Carter, 2012). Likewise, rates of material hardship for Māori and Pasifika children are several times the European rate. Child poverty in New Zealand is also concentrated spatially (e.g. in Northland, Gisborne, South Auckland, Porirua, eastern Christchurch and South Dunedin), and is higher among families with significant physical disabilities and/or mental health issues.

Why poverty matters
A substantial body of empirical evidence indicates that poverty, and especially child poverty, has harmful consequences (see Duncan, Ziol-Guest and Kalil, 2010; Duncan and Magnuson, 2013; Expert Advisory Group, 2012, pp.14-17; Gibb, Fergusson and Horwood, 2012; Ladd, 2012). For example, compared with their better-off counterparts, children experiencing poverty in New Zealand:

• have a 1.4 times higher risk of dying during their childhood;
• are 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;
• are much more likely to live in homes with no heating (because there are no heaters, there is no money to use heaters or no electricity due to unpaid bills);
• are less likely to participate fully in early childhood education and extracurricular activities; and
• are less likely to leave school with NCEA level 2, which is the entry-level qualification to skilled employment (see Expert Advisory Group, 2012, p.15).

Moreover, as Greg Duncan and his colleagues have highlighted based on US evidence, child poverty often has a long reach (Duncan, Ziol-Guest and Kalil, 2010; Duncan and Magnuson, 2013). It can fundamentally affect a person’s whole life-course, contributing to protracted and repeated ill health, limited employment prospects, insecure housing and semi-permanent poverty.

Strategies for reducing poverty
Given the harmful effects of poverty, and especially poverty that is prolonged, severe or that occurs during early childhood, there are good reasons for seeking low poverty rates. Two questions then arise: what should be the policy goal in relation to poverty; and how can this goal best be achieved?

With respect to goals, New Zealand has endorsed the United Nations Sustainable Development Goals, which were agreed to in 2015 by virtually every country. The first of the 17 goals focuses on alleviating poverty and includes an explicit target for 2030, namely 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’. In practical terms, this would imply New Zealand halving rates of both income-based poverty and material deprivation, and seeking to do so for all population groups.

Such a goal, of course, is demanding. For one thing, reducing rates of material deprivation is inherently more difficult than cutting rates of income-based poverty. This is because deprivation rates depend on many factors over which governments have little control, including how families choose to allocate and utilise their financial and other resources. For another, as noted earlier, New Zealand already has low rates of income-based poverty and material deprivation among those aged 65 years and over, at least by international standards. Halving these rates would be challenging from a policy perspective. Against this, halving the current rates of child poverty (especially as measured on an income basis) is certainly feasible. After all, as previously discussed, 30 years ago New Zealand had child poverty rates around half their current rates. Also, there are currently countries in Europe (most notably in Scandinavia) with child poverty rates around half those in New Zealand. Likewise, it should be readily possible to achieve substantial reductions in rates of income-based poverty among Māori and Pasifika.

Faced with mounting evidence of, and public concern about, family poverty, the government introduced a Child Hardship Package in the 2015 Budget.

The next question, therefore, is how to achieve goals, such as those embraced within the Social Development Goals, and to do so in a cost-effective and lasting manner. In broad terms, as Perry (2016, p.8) argues, there are three strategies available:

• increasing household income, whether through higher total earnings or increased government cash assistance or reduced taxation;
• reducing the demands on the core household budget (e.g. through increased government services and higher government subsidies for such things as health care and childcare); and
• enhancing the capacity of families to manage their resources (e.g. through improved budgeting skills, better family functioning, enhanced life skills, and better access to government and community services).

In terms of increasing household income, governments have two basic options (see OECD, 2009, 2011). The first focuses on paid employment. This
In the weeks leading up to the 2017 general election, various political parties – including the Greens, Labour and the Opportunities Party – have proposed a range of anti-poverty initiatives.

Alleviating Poverty – issues and options

Involves policy measures designed to boost incentives for employment, raise overall employment levels, and enhance the availability of employment – particularly employment that is relatively secure and adequately paid. The second option is to enhance the redistributive effectiveness of the tax-welfare system, most notably by increasing the financial assistance available to those without paid employment and those with inadequate market incomes. In New Zealand, recent governments of different political persuasions have employed both options to some extent, but their efforts thus far have fallen well short of what is required to halve poverty rates, whether generally or for specific population groups, such as children.

As noted earlier, the Labour-led government (1999-2008) introduced the Working for Families package in the mid-2000s. While this provided significant additional financial assistance to families in paid employment (especially via the in-work tax credit which replaced the former child tax credit in April 2006), it provided no similar gains for families who are largely dependent on welfare benefits. As a result, the high poverty rates experienced by beneficiary families since the 1991 welfare cuts have largely continued.

Subsequently, in the wake of the global financial crisis, the National-led government made various policy changes that reduced the overall generosity of Working for Families and lowered public expenditure on family assistance. In particular, the abatement threshold for the family tax credit was reduced (gradually from $36,827 to $35,000), the abatement rate was increased (gradually from 20% to 25%) and the top rate of financial assistance available under the family tax credit of about $101 per week (which applies to the first child in a family aged 16–18 years) was frozen in nominal terms. Equally significant, the accommodation supplement – which is the largest single source of housing assistance to low-income families and individuals – was not inflation adjusted.

Facing mounting evidence of, and public concern about, family poverty, the government introduced a Child Hardship Package in the 2015 Budget. This took effect on 1 April 2016. The most significant measures included an increase in core benefit rates for welfare beneficiaries with children by up to $25 a week (the first substantial increases in financial assistance via the accommodation supplement. The government estimates that, if fully implemented, the package will benefit approximately 310,000 families via the changes to the family tax credit, while the adjustments to the accommodation supplement will benefit around 136,000 low-income households (Joyce, 2017). The precise impact on poverty rates is difficult to calculate, but it is expected that around 50,000 children will be lifted above one of the more demanding income-based poverty measures (i.e. 50% of median disposable household incomes, before housing costs are deducted) (ibid). This constitutes about a third of the children living in households which currently fall below this threshold (see Table 2). The impact on the proportion of children living in poverty as calculated on the basis of higher thresholds is likely to be significantly less.

Unfortunately, unless the package is amended over the next few years, its medium- to long-term impact on poverty rates will be modest. First, while the changes to the family tax credit will increase the level of financial assistance for most children in low-income families, the package also lowers the abatement threshold and increases the abatement rate, thus reducing the level of assistance available to families further up the income hierarchy. Second, and more important from a longer-term perspective, neither the family tax credit nor the in-work tax credit are linked to consumer prices, let alone average wages. Similarly, the accommodation supplement remains non-indexed. Hence, even in a period of relatively low price inflation, the level of assistance to low-income families will gradually erode in real terms. Third, if the objective is to halve poverty rates – and especially those for children – the aggregate level of governmental assistance (i.e. via tax credits and subsidies for housing, childcare and health care) remains too low. Indeed, the aggregate level of government expenditure on Working for Families tax credits in 2018-19, following the introduction of the Family Incomes Package, will remain much lower in real terms than it was during and immediately after the global

[Table 2]

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A new approach to alleviating poverty

If poverty rates in New Zealand are to be reduced substantially on a durable basis, a more comprehensive package of measures will be required. In the weeks leading up to the 2017 general election, various political parties – including the Greens, Labour and the Opportunities Party – have proposed a range of anti-poverty initiatives. These deserve careful scrutiny and proper public debate.

Ideally, it would be best if a cross-party accord could be negotiated, with the key elements embodied in legislation, as happened in 1993 regarding New Zealand Superannuation. But securing such an agreement on an anti-poverty strategy is likely to be difficult. Among other things, there are significant differences between the current parliamentary parties over such matters as:

• the amount of additional public expenditure that should be allocated to anti-poverty measures;
• the appropriate mix of universal and targeted forms of social assistance;
• the appropriate mix of cash and non-cash benefits;
• the design of housing policies (see Grimes in this issue of Policy Quarterly);
• the desirability and effectiveness of incentives for paid employment (such as the in-work tax credit and the use of sanctions within the benefit system) (see St John, 2006, 2013; St John and Dale, 2012); and
• the extent to which priority should be given to families with young children.

It is not possible to explore all the issues and options here, but in my view there remains much merit in the strategy recommended by the Expert Advisory Group on Solutions to Child Poverty in 2012, albeit modified to take proper account of more recent policy initiatives and international agreements, such as the Social Development Goals. While the group’s 78 recommendations focused exclusively on child (or family) poverty, it would be readily possible to adapt and extend these recommendations to cover individuals and couples without children. In broad terms, a strategy of the kind proposed by the Expert Advisory Group would contain the following elements:

1. A clear set of medium- to long-term poverty-reduction targets, ideally embodied in legislation. Such targets could be based on those identified in the Social Development Goals but tailored for New Zealand’s distinctive social context. Such targets could be differentiated by age and ethnicity, and varied depending on whether they apply to income-based measures or material deprivation measures. Priority should be given to reducing the most severe and protracted forms of poverty, especially in childhood.

2. A thorough, independent review of the structure and level of family assistance and welfare benefits, perhaps similar in nature to the Royal Commission on Social Security in 1972. Part of the aim of such a review would be to investigate the costs of different kinds of households achieving specified standards of living.

3. A principled and comprehensive approach to the indexation of all forms of social assistance, including income support for families and subsidies for housing, childcare, early childhood education and primary health care.

4. For families with children, a mix of universal and targeted assistance (e.g. with an element of universal income support for children when they are very young, and a greater reliance on targeted assistance as they grow older, as parents become able to undertake more paid employment).

Plainly, to be effective, any anti-poverty strategy will involve significant fiscal costs (see Boston and Chapple, 2014). While there may be some scope for fiscal savings in certain areas of public policy, realistically most of these costs will need to be met via additional public expenditure. A critical political issue, therefore, is what priority should be given to reducing poverty. This, surely, ought to be a matter of vigorous debate during the 2017 election campaign and beyond. It goes to the heart of the question of what kind of society we should strive to build. It also raises the fundamental issue of whether New Zealand will honour its international commitments and moral obligations.

Acknowledgment

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“We have already developed a post-NASPAA work programme, which includes a more focused strategy for the School to, for instance, enhance its programmes for Māori, Pasifika and international students, and to improve the alignment of our PhD programme with the School’s research priorities.

“NASPAA accreditation will encourage us to continually review whether the Master of Public Policy and Public Management degrees are fit-for-purpose, and encourage us to build new databases to monitor our achievements. It is the beginning of a very exciting time for the School.”