

Jo Smith

Persistent Disadvantage in Aotearoa New Zealand

Abstract

New data and research shed fresh light on our understanding of persistent disadvantage in Aotearoa New Zealand. They show that, while overall income poverty and material hardship has declined significantly over the past decade or so, a small proportion of the population continues to experience multiple, complex disadvantages over many years, and sometimes generations. There has been little meaningful policy action aimed specifically at assisting this cohort of people who are experiencing the greatest need. Fundamental changes are needed across a range of systems. Providing effective supports and investments, and removing structural barriers and inequities, would have significant intergenerational pay-offs.

Keywords persistent disadvantage, poverty, material hardship, Aotearoa New Zealand

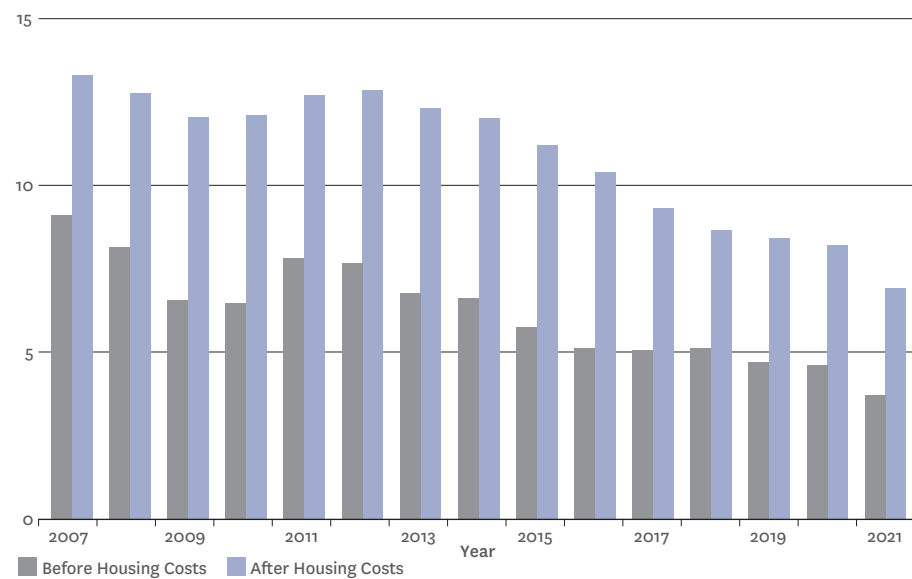
What is 'persistent disadvantage'?

Many people experience one or more forms of hardship or disadvantage at some point in their life. These experiences are often temporary, and many people can draw on other resources, including from their family, whānau or wider community, to support them through such times. For example, an individual may be unemployed for a period, but be supported by other family members, and be able to tap into professional networks to find another job. And those with personal savings can dip into these to fund unexpected expenses, such as car repairs or replacing broken appliances.

But some individuals and families experience multiple, complex, and often interrelated problems that are barriers to them realising their aspirations for a good life. The drivers of these problems are complex. They include systemic problems, such as the ongoing impacts of colonisation, institutional racism, ableism, patriarchy and other power structures in society. Systemic problems are often interconnected with personal experiences, such as family and sexual violence, chronic ill-health, addictions and loss of economic

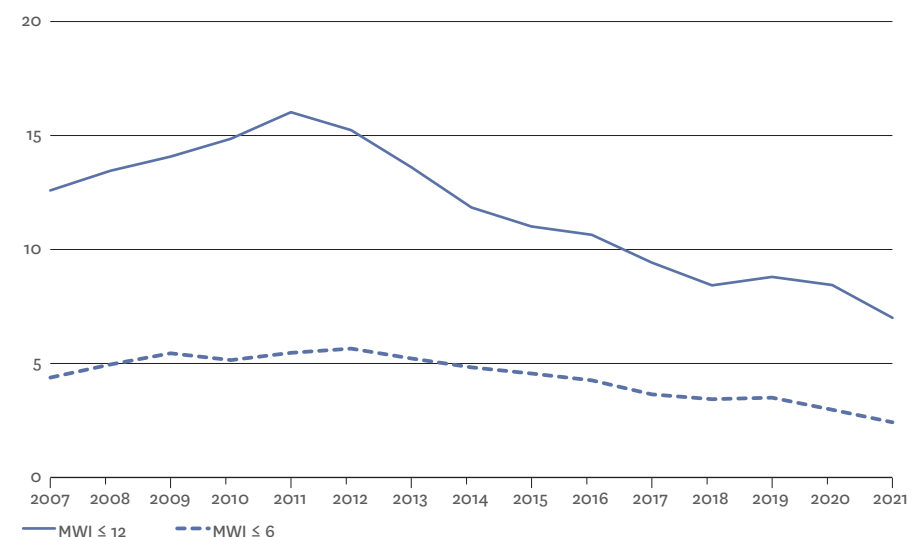
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Figure 1: Percentage of people in households with <50% 2007 median income



Source: Ministry of Social Development analysis of Household Economic Survey data, presented in Hughes, 2022

Figure 2: Percentage of people in material hardship (two-yearly moving average)



Source: Ministry of Social Development analysis of Household Economic Survey data, presented in Hughes, 2022

opportunities (Wilson and Fry, 2023; Fry, 2022).

Multidimensional disadvantage can persist over many years, and even generations. Complex and persistent disadvantage is devastating for individuals and their families, and costly for the wider community. The wider costs arise in many ways, including lower educational achievement, and hence lower productivity, personal incomes and tax revenues, as well as from direct costs to the health, social welfare and justice systems. Everyone loses out.

Aotearoa New Zealand currently lacks official definitions of both ‘disadvantage’ and ‘persistent’, and also lacks measures to track persistent disadvantage. This article focuses on the lack of adequate material

resources on the part of those who experience persistent and non-persistent disadvantage. ‘Adequate’ resources are enough to meet the basics of modern life and to allow a person to participate in society, such as housing that is good-quality, stable and affordable, food, clothing, heating and transport.

This article starts by surveying the trends in income poverty and material hardship. It looks at a variety of measures that are commonly used in New Zealand, including the government’s official measures of child poverty. It then explores poverty and hardship that persists over many years, focusing on the group of people who experience multiple forms of persistent disadvantage. It argues for a

concerted policy focus on helping those people who experience the greatest need.

Poverty and material hardship is declining
Income poverty

Commonly used measures of income poverty in New Zealand look at the proportion of the population whose annual equivalised household disposable income is less than a certain percentage of the median income (typically 50% or 60%). This relative measure of income poverty allows for real income growth over time.

The choice of household income rather than individual income reflects the assumption that there will be some sharing of income within households. Using disposable incomes takes into account the redistribution that occurs through the country’s tax and transfer systems.

Figure 1 shows the proportion of people who live in households that have less than half of the 2007 median income. By this measure, income poverty fell from 9.1% in 2007 to 3.7% in 2021. When housing costs are taken into account, the figures are higher but follow a similar trend.

Using the median income for a fixed year (2007 in this case) means that as incomes rise, relative poverty rates will fall. An alternative approach uses the median income in each year, giving a moving poverty line. Measuring poverty in this way produces a less marked decline over the decade from 2008, because income growth lifted the median.

Material hardship

The proportion of people in material hardship has also been falling.

A measure of material hardship that is commonly used in New Zealand is provided by the Material Wellbeing Index (MWI). The MWI consists of a list of 24 items representing different aspects of material wellbeing. The items include essential living conditions, such as food, accommodation, clothing, heating and transport, and also the ability to meet unexpected expenses, such as appliance repairs. Counting how many of these items a household has or lacks gives a measure of wellbeing or level of hardship of the household. Using this measure, people in households with 12 or fewer of these items are considered to be in ‘material hardship’

Table 1: Child poverty statistics 2013 and 2022

Measure	2013	2022
Primary measures		
Percentage of children living in households with low income: <50% median equivalised disposable household income before housing costs	15.6	12.0
Percentage of children living in households with low income: <50% median equivalised disposable household income after housing costs	26.9	15.4
Percentage of children living in households in material hardship	18.1	10.3
Selected supplementary measures		
Percentage of children living in households with low income: <60% median equivalised disposable household income before housing costs	23.6	20.7
Percentage of children living in households with low income: <60% median equivalised disposable household income after housing costs	29.3	28.5
Percentage of children living in households in severe material hardship	7.7	3.9
Percentage of children living in households with low income <i>and</i> in hardship (<60% median equivalised disposable household income after housing costs)	10.5	5.9

Source: Statistics New Zealand, 2022

(MWI \leq 12), and those with six or fewer of the items are considered to be in ‘severe material hardship’ (MWI \leq 6).

As shown in Figure 2, material hardship has been tracking downwards since a peak in 2011. In 2021, the proportion of people in material hardship according to the MWI \leq 12 measure was 7%. The proportion of people in more severe hardship is smaller but has also been falling. In 2021, 2.4% of people had six or fewer of the items in the MWI measure.

Child poverty

The decline in overall poverty and material hardship has contributed to improvements across all of the government’s official measures of child poverty. Using a measure of <60% of the median equivalised household disposable income after housing costs, the proportion of children living in poverty fell from 29.3% to 28.5% over 2013–22. This is quite a small drop as it uses a moving poverty line, which (as noted above) rises over time with income growth.

The proportion of children in material hardship during the same period dropped from 18.1% to 10.3% and the proportion in severe material hardship dropped from 7.7% to 3.9%. The proportion living in households experiencing both income poverty and material hardship dropped from 10.5% to 5.9% (see Table 1).

Employment growth has been a key driver of these improvements

Those improvements in poverty and hardship are significant. Key drivers

include: the growth in employment, particularly due to the substantial rise in female participation in the labour force; rising real wages; and falling unemployment (Perry, 2019).

Various policy changes have been central in helping people at the bottom of the income distribution: for example, increases in the real value of income support for families, increases in the real value of core welfare benefits, and improvements to other social supports.

Longitudinal measures are needed to track persistent disadvantage

The measures described above use cross-sectional data, providing ‘static’, or point-in-time, estimates. They capture people who may only experience poverty for a short time: for example, students, or people temporarily unemployed. Many New Zealand studies have shown that a significant proportion of people experience a period of low income at some stage in their life, and that episodic low income (dipping in and out) is common. But to understand persistent disadvantage, we need longitudinal measures that track the same people over time, and across a range of measures of economic and social progress.

New Zealand lacks population-level longitudinal data. Statistics New Zealand used to run a longitudinal Survey of Family, Income and Employment (SoFIE). From 2002 to 2010, SoFIE followed a fixed panel (that is, the same people), tracking changes in their household economic

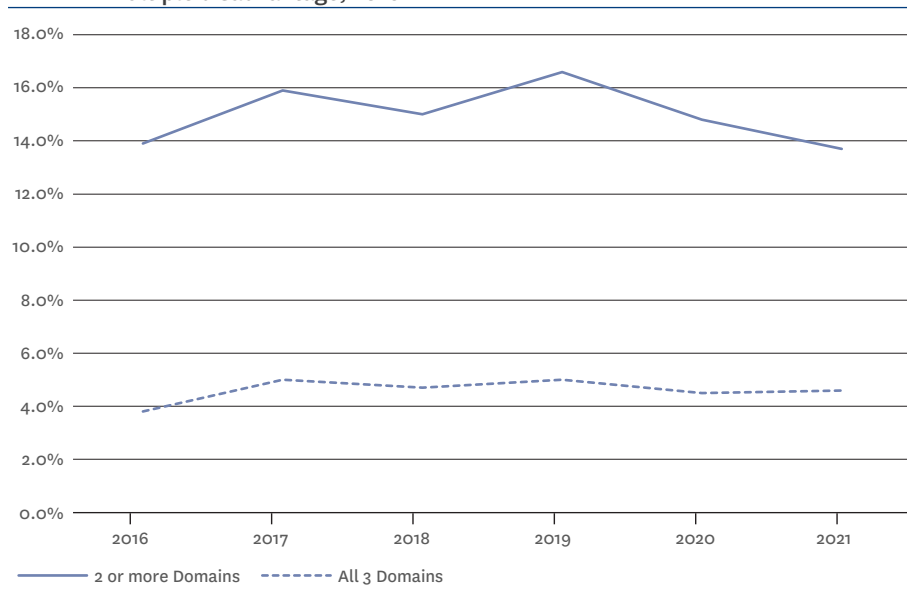
wellbeing, including income levels, employment, benefit receipt, and participation in education and training. Over 18,000 individuals were surveyed in all eight years. In the time since SoFIE was discontinued, New Zealand has lacked an official population-level longitudinal study.

Statistics New Zealand will begin reporting on persistent poverty from 2027, using a new longitudinal survey, Living in Aotearoa. Unlike SoFIE, which maintained a fixed panel, Living in Aotearoa will use a rotating panel of respondents (people will rotate out after six years).

Important sources of relevant longitudinal data are New Zealand’s three major birth cohort studies, which each track a group of people through their life course. The Dunedin Multidisciplinary Health and Development Study and the Christchurch Health and Development Study each follow a cohort of over 1,000 people born in the 1970s. While these studies provide rich evidence, the cohorts they track are not representative of the wider New Zealand population. The Growing Up in New Zealand study has been tracking a larger, more ethnically diverse and more recent cohort of children in Auckland and Waikato since 2009/10, when 6,000 pregnant women and their partners were recruited for the study.

Using this data, and also acknowledging their limitations, various studies have examined different aspects of the poverty picture.

Figure 3: Percentage of the ‘peak working-age’ population experiencing multiple disadvantage, 2016–21



Source: Productivity Commission, 2023

Table 2: Percentage of the population experiencing measures of disadvantage in 2013 and 2018

Domain/type	Measure/domain	Working-age households			All individuals		
		2013 only	2018 only	Both years	2013 only	2018 only	Both years
Income poor	<60% HEDI	16.2	15.5	7.4	18.2	19.2	9.1
Deprived	No heating/fuels	3.3	4.0	1.0	3.2	3.9	0.9
	Overcrowded	15.0	9.9	5.5	13.3	9.0	4.7
	Deprived (1 or both measures)	17.0	12.6	6.9	15.3	11.7	6.1
Excluded	No job	6.4	5.4	2.6	6.5	4.9	2.3
	No qualifications	6.4	4.7	2.7	8.1	4.2	2.5
	No internet	11.1	6.6	3.4	12.8	8.1	4.8
	No motor vehicles	3.3	2.7	1.4	3.7	3.4	1.7
	Excluded (1 or more measures)	19.5	14.8	8.8	22.2	16.0	10.2

Source: Productivity Commission, 2023, p.40. Improvements between 2013 and 2018 shown in green, deterioration in red.

There is ‘stickiness’ at the rich and poor ends of the income distribution

There are different ways of measuring persistent poverty, and people’s chances of moving up (and down) the income ladder – known as ‘income mobility’. Mobility can be absolute (change in income level) or relative (change in income relative to the rest of the population: that is, shifting along the income distribution).

There is no ‘right’ way of measuring persistent poverty, and different countries use different measures. For example, the European Union and the United Kingdom

use a measure of relative income poverty (below 60% of the median household disposable income) in three out of four years (Office for National Statistics, 2019).

In New Zealand, Carter and Gunasekara examined SoFIE data from 2002 to 2009. Using a measure for ‘low income’ of 60% of gross equivalised household income (before housing costs), they found that 50% of people experienced low income in one or more of the seven years, 20% for four or more years, and 6.3% of people in all of the seven survey years (Carter and Gunasekara, 2012, pp.13–15).

Carter and Gunasekara found substantial relative income mobility in the middle-income quintiles. In each year, around 50% of these people experienced a shift in income quintile; and two-thirds had moved either up or down after seven years. There was less mobility – or more ‘stickiness’ – in the upper and lower quintiles. For example, 45% of people in the lowest income quintile in the first year were still there seven years later (note that this does not mean they remained there for each of the seven years).

New studies, some using novel approaches, offer insights from more recent data. Creedy and Ta (2022) used linked data from the Household Labour Force Survey and the census in Statistics New Zealand’s Integrated Data Infrastructure (IDI). They found that for income mobility across people’s life course, New Zealand is roughly in the middle of OECD countries. As with earlier studies, they found less mobility at the top and bottom of the income distributions. Just under half of people in the lowest income decile remained in one of the lowest two deciles over the period 2013–19.

Creedy and Ta also examined low-income persistence. One in ten New Zealanders had persistently low incomes in both 2007 and 2013, and the same proportion had persistently low incomes in both 2013 and 2020. People who are not working or who are sole parents or without qualifications are more likely to have persistently low incomes. Gaining employment or educational qualifications improves people’s chances of exiting low incomes.

The findings from those studies, and from other contemporary studies, suggest that the rates of income mobility, and of low-income persistence, are similar to those found in earlier research (Hughes, 2022, pp.35–7).

A small cohort of people experiences multiple and persistent disadvantage

A new study by Prickett et al. (2022), using data from the Growing Up in New Zealand study, found that 10% of New Zealand children experience multiple disadvantages (such as very low household incomes, material hardship and lack of stable housing) through most of their early

and middle childhood. A small percentage of children (2.7%) were found to be disadvantaged across multiple domains in every wave of the study. The study also found that twice as many children experienced downward mobility as experienced upward mobility, suggesting that ‘climbing out of disadvantage is harder than falling into it’ (Prickett et al., 2022, p.66).

Research by the New Zealand Productivity Commission for its *A Fair Chance for All* inquiry (Productivity Commission, 2023) looked at seven measures and three domains of disadvantage – being income poor, doing without, and being left out. A person was classified as ‘disadvantaged’ if they experienced one or more of the measures in any of those three domains.

The measure used for ‘income poor’ was <60% of the median equivalised disposable household income after housing costs. Two measures were used for ‘doing without’: living in a household that was overcrowded; and living in a household that lacked heating. Four measures were used for a person who is ‘left out’: living in a jobless household; living in a household with no high school (or other) qualifications; having no access to a motor vehicle; and having no internet access.

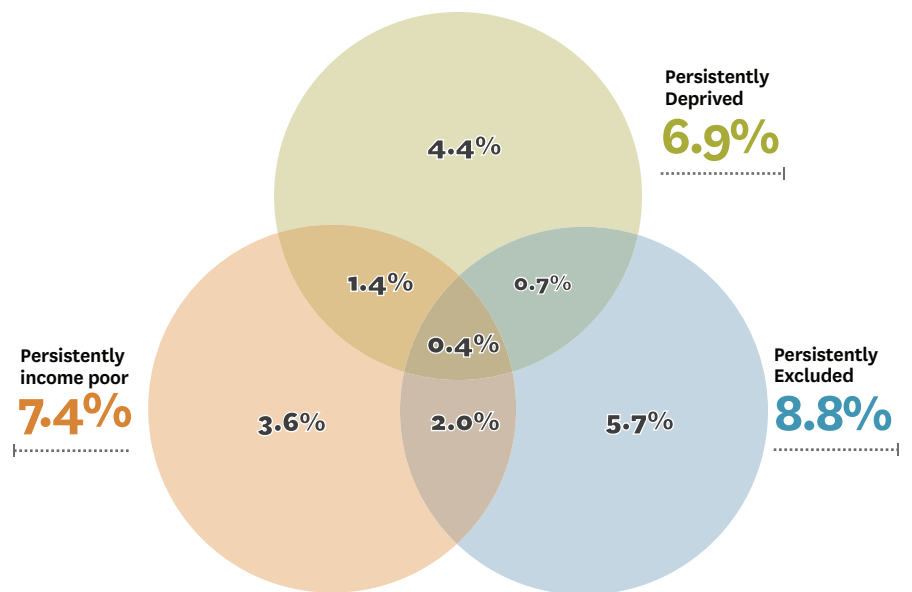
The Productivity Commission used cross-sectional (point-in-time) data from the Household Economic Survey to look at the trends in multiple disadvantage. It found that the overall rates of people experiencing disadvantage in two or more domains fell from 2019 to 2021, but that the rate for all three domains has remained fairly steady since 2017 (Figure 3).

Using census data, the commission looked at ‘peak working-age’ households (that is, where at least one adult is aged 25–64). It found that overall disadvantage declined between 2013 and 2018 (except for the heating measure) (Table 2).

Improvements between 2013 and 2018 shown in green, deterioration in red.

The commission also looked at persistent multiple disadvantage. ‘Persistence’ was defined as experiencing disadvantage in one or more domains in both 2013 and 2018. The results showed that 4.2% of people in working-age households experienced disadvantage in two or more domains in

Figure 4: Persistent disadvantage in 2013 and 2018



Source: Productivity Commission (2023)

both 2013 and 2018. Less than half a per cent (0.4%, or 15,500 people) experienced persistent disadvantage in all three domains (Figure 4).

These findings are consistent with the trends described above, which show that, while overall poverty and material hardship has declined significantly, a proportion of the population continues to experience multiple and persistent disadvantage. This differs from the common narrative in New Zealand that persistent disadvantage is widespread and growing. A shared understanding of these trends is an essential foundation for formulating policy responses that are both effective and enduring.

Fundamental system changes are needed

The lower overall rates of income poverty and material hardship since 2013 need to be acknowledged. However, these improvements have not benefited the proportion of the population that experiences multiple and persistent disadvantage. This implies that we need to do things differently to help people stuck in persistent disadvantage.

Numerous commissions, reports and studies over many years have advocated for fundamental changes. Recommendations have covered a range of systems, including tax, welfare, education, health, justice, state care of children, and labour market policy. For example, in 2019 the Welfare Expert

Advisory Group concluded that New Zealand’s social security system is no longer fit for purpose. They found that the combination of tight targeting, sanctions and low levels of support means welfare supports are inadequate to meet people’s basic needs. People’s experiences of the system are also unsatisfactory and damaging, and contribute to toxic stress. The advisory group called for urgent and fundamental change; this included increasing income levels for people on benefits and in low-paid work, and also ensuring that income support continues to be adequate over time (Welfare Expert Advisory Group, 2019).

In the same year, the Tax Working Group highlighted the tax treatment of capital gains as out of step with other developed countries. They concluded that the general lack of taxation of capital gains makes the tax system less fair and benefits the wealthiest members of society. The group were unanimous that the taxation of capital gains should be extended, with the majority in favour of introducing a broad new approach (Tax Working Group, 2019).

Numerous reports have diagnosed problems with the supply, quality and price of housing, and stability of housing tenure. In 2023 the Human Rights Commission characterised the housing crisis as caused by ‘decades of institutional neglect’, including the failure to recognise or give effect to the basic human right to decent

housing (Human Rights Commission, 2023, p.12). The Human Rights Commission called for a human rights-based housing strategy, including improvements to the emergency housing system.

These are just a few examples. But despite clear calls for action over several decades, there has been little public policy focus on assisting the people experiencing the deepest and most entrenched disadvantage.

Systems changes are necessary but not sufficient

Systems changes that increase household resources and improve people's opportunities are necessary but not sufficient to assist those people who experience multiple and persistent disadvantages. This is because some people struggle to convert the resources they have into improved wellbeing. They may need additional support to develop the capabilities, and to address serious physical and mental health issues, in order to do so (Wilson and Fry, 2019).

Economist Amartya Sen recognised this in his capability approach, which focuses on the real opportunities people have to lead a life they have reason to value. In Sen's framework, people's ability to convert resources into real opportunities provides them with the freedom to achieve. When people face barriers that inhibit their capabilities, their genuine choices are curtailed (Sen, 1989).

Many studies and inquiries have concluded that families and whānau facing multiple, persistent disadvantages are likely to need multi-faceted support across a range of areas (such as income, housing, food, physical and mental health, addiction, and having a family member in prison). While this point is often made rhetorically, it is not being followed through. In addition to the range of system changes outlined above, tackling persistent disadvantage also requires a concerted and coordinated policy focus on people facing multiple disadvantages.

One way to achieve this is by devolving greater funding and decision making to organisations and initiatives based within local communities. Devolving the decision rights over dedicated budgets enables local

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frontline organisations, groups, and entities such as place-based initiatives to coordinate and assemble flexible, tailored, whānau-centred supports and initiatives. This was one of the major recommendations of the Productivity Commission's 2015 inquiry, *More Effective Social Services* (Productivity Commission, 2015).

Evaluations show that people receiving supports from place-based initiatives and other collaborative, locally-led initiatives generally view them very positively. Some proven successes, such as the Whāngaia Ngā Pā Harakeke family violence programme, and Te Ara Oranga, an integrated methamphetamine harm reduction pilot, are being scaled up and introduced in other locations (Fry, 2022).

Local initiatives such as place-based initiatives, that work with families experiencing persistent disadvantage, require stable, long-term (multi-year) funding. This is because it takes time to build the trusted relationships – both among providers and between providers and the people being supported – that are necessary for success. Long-term funding is also needed because some people and whānau may need ongoing support over many years. The benefits may not be evident over the short or medium term; in some instances, it may be the next generation that fully reaps the benefits.

The problems faced by people experiencing multiple and persistent disadvantages span the responsibilities of many government agencies. While concerted efforts have been made over many years to get better collaboration across agencies, cross-agency working and co-funding is difficult given the vertical accountabilities of the public management system. A new, dedicated Vote, along with a responsible minister, would help overcome these difficulties and demonstrate commitment to reducing persistent disadvantage.

Reducing persistent disadvantage would have significant intergenerational pay-offs
Multiple and persistent disadvantage should be of concern to policymakers, as it has the greatest negative impacts on the people and their families who experience it. Wider society also loses out in multiple ways when people face significant barriers to realising their aspirations for a good life. Providing effective supports and investments, and removing structural barriers and inequities, would have significant intergenerational pay-offs.

For example, a 2011 study estimated the costs of child poverty in New Zealand at \$8 billion a year, equivalent to around 4.5% of GDP (Pearce, 2011). The Productivity Commission's 2015 inquiry reported that the 10,000 highest-cost clients of the social services system are each expected to generate lifetime budgetary costs of \$500,000 or more, totalling \$6.5 billion (Productivity Commission, 2015, p.3). That would be around \$8.1 billion in today's dollars.

A recent study also found that Māori primary healthcare providers are systematically underfunded for meeting the well-established patterns of Māori health need, in the order of \$1 billion a year. Rectifying this inequity could save the country \$5 billion a year in health-related costs (Love et al., 2021).

The benefits of reducing persistent disadvantage therefore accrue to individuals and their whānau, as well as the wider community. And as cycles of intergenerational disadvantage are broken, these benefits would flow through and be amplified in future generations.

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