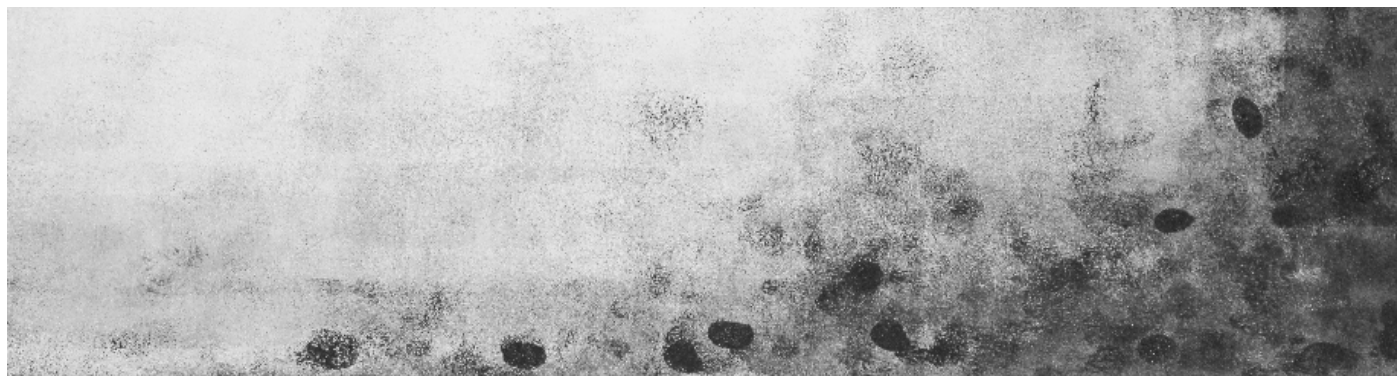


# Doing Something About Poverty in New Zealand

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Levels of Intensity, Radford 2010



## Conal Smith

About the author: Conal has worked as a senior economist at the OECD and in managerial and senior policy roles in a range of different government agencies. He led development of the first international guidelines on the measurement of subjective wellbeing and the OECD's first wellbeing themed country report. Conal developed and taught the first course in wellbeing economics at Sciences Po in Paris in 2014. His current research areas include the measurement of trust, social capital, and the policy uses of wellbeing measures.

Poverty in New Zealand is one of the foremost challenges we face as a country. Rates of poverty – particularly for children in workless households – are high by developed country standards.<sup>1</sup> In fact, poverty in New Zealand remains stubbornly high no matter how it is measured, and remains particularly entrenched in pockets of provincial New Zealand where it coincides with high rates of drug dependency, poor health outcomes – reaching third world standards in some areas – high crime and victimisation levels, and multi-generational cycles of disadvantage.<sup>2</sup>

This is despite historically high employment rates, and unemployment rates that are low in terms of both international and historical comparison. Total transfer expenditures – benefits and tax credits – are also relatively high (although somewhat down from historical highs). Whatever is driving poverty in

New Zealand is not as simple as a lack of jobs or the adequacy of the benefit system.

The problem is that we have reached a stable equilibrium where the impact of our collective efforts to address poverty are only holding the line against the social, cultural, and economic forces pushing people into poverty.<sup>3</sup> More incremental change at the margin will not significantly impact on levels of poverty in New Zealand. We need a circuit breaker.

The *TacklingPovertyNZ* workshop tour was an attempt to find that circuit breaker by going outside of the traditional policy community to look at ideas on how to change the way we address poverty in New Zealand from the bottom up rather than the top down. The aim of the workshops was not to develop a definition of poverty or to gather information about the experience of poverty in New Zealand, but rather to crowd-source potential ways to address the issue. In total, the *TacklingPovertyNZ* project involved 400 participants across six regional workshops and identified 240 distinct ideas or proposals for ways to tackle poverty in New Zealand.<sup>4</sup>

The aim of *TacklingPovertyNZ* was to widen the debate about approaches to addressing poverty in New Zealand. Where current policy settings represent a considered and evidence-based view of what is likely to be the most effective, given commonly accepted parameters for the nature and scope of anti-poverty measures in New Zealand, the aim of *TacklingPovertyNZ* is explicitly to provide ideas that challenge those commonly accepted parameters.

## HOW TO THINK ABOUT POVERTY IN NEW ZEALAND

In order to make sense of the proposals that emerged from *TacklingPovertyNZ* it is necessary to have a sense of what the workshop participants thought they were developing solutions to. In other words, it is important to know what the participants meant by poverty.

It was evident that most workshop participants saw poverty not simply as a state of low income, but as an outcome of low income, poor coping skills, and a 'culture' of poverty at the family level; of challenges grounded in poor regional infrastructure

and opportunities; and of problems in resource allocation at the national level. Similarly, workshop participants saw poverty as a problem not simply because low income is undesirable, but because low income is associated with other poor outcomes in the areas of health, housing, work, education, and social contact. In other words, where traditional poverty measurement has largely focused on incomes, the workshop respondents saw poverty as fundamentally multi-dimensional. Although there are practical reasons for economists and others interested in measuring poverty to use precise definitions of the concept, the intuitive view of poverty put forward in the workshops is, in many senses, more relevant.<sup>5</sup>

Acknowledging the multi-dimensional nature of poverty has several implications when thinking about how to tackle poverty in New Zealand. First, there is not going to be a single solution that can 'fix' poverty. Multiple causes mean that what drives one family into poverty may not be responsible for the situation of another. Finding work for a family where both parents are unemployed may address poverty in one instance, but is unlikely to help in a different case where poverty is caused by drug and alcohol dependency.

While incomes are clearly an essential part of addressing poverty, higher incomes alone will not be sufficient. No feasible transfer system – no matter how generous – can entirely eliminate poverty. An adequate income is one of the key sustaining factors identified in the *TacklingPovertyNZ* workshops, but to tackle poverty in New Zealand, we need to think more widely than this.

## TACKLING POVERTY

What can be done? Seven proposals to address poverty in New Zealand have been identified from the 240 ideas that emerged from the *TacklingPovertyNZ* workshops. They reflect themes or suggestions that were repeated across the workshops, and which, if implemented, would represent a significant change in how New Zealand addresses poverty. These are to:

1. simplify and standardise the benefit system,
2. introduce special demarcation zones in regions of high need,
3. revisit the role of the state as employer of last resort,
4. apply a social investment approach to investment in 'hard' regional infrastructure,
5. invest significantly in mental health,
6. target the behavioural drivers of poverty, and
7. introduce asset-based assistance for high-risk children.

### 1. Simplify and standardise the benefit system.

The current welfare system (back to 1993) is built around relatively low core welfare benefit rates and an extensive array of supplementary and discretionary assistance to meet the needs not covered by the core benefits. This has the advantage of targeting expenditure very closely on need while maintaining a relatively large gap between core benefit levels and wages. However, it also has a number of disadvantages. Implementing the system is expensive, with Ministry of Social Development (MSD) operating costs of approximately 1.5 billion per year. It is difficult for those in need of benefits to understand what they are entitled to, and obtaining discretionary assistance can represent a significant drain on beneficiary time and effort that could be better used elsewhere. Perhaps more importantly, the system is very badly designed from the point of view of encouraging benefit recipients to manage independently.

Prior to 1993, New Zealand's benefit system was built around higher core rates for the main benefits, accompanied by a much narrower range of supplementary assistance and discretionary grants. While the 1993 benefit cuts were intended to improve work incentives by reducing benefits relative to wages, in fact, the net amount received per beneficiary declined by much less than the cut in core benefits because of the increase in usage of supplementary and discretionary assistance. Rather than creating a strong work incentive by reducing benefits relative to wages, the most important effect was to move the burden of managing additional costs from the benefit recipient to the state, undermining the culture of independence and self-reliance that the 1993 reforms had been intended to create.

Serious consideration should be given to simplifying and standardising the benefit system around a limited number of relatively higher core benefits, but with reduced scope and eligibility for supplementary and particularly discretionary assistance. This would necessarily create both winners and losers within the benefit system. Nonetheless, a change of this nature would have several clear advantages. It would reduce administrative costs in the MSD, reducing the government's net fiscal burden even if the fall in supplementary and discretionary assistance is not quite as large as the increase in core benefits. A simpler system would reduce the cognitive burden and time burden on beneficiaries, resulting in a net gain in wellbeing even without behavioural change. Finally, a simpler system with less discretionary assistance would encourage a culture of managing on a fixed income, much more analogous to living on wages than the current benefit system.

### 2. Devolve resources for empowerment-related programmes to the regions in special demarcation zones.

While differences between individuals and families undoubtedly explain a lot about poverty, there is clear evidence that region plays an important role. In particular, Northland, the East Cape, and some areas of the central North Island have a long history of disadvantage in many forms.<sup>6</sup> Despite this, comparatively little social assistance is targeted specifically at a regional level, and the little existing regionally targeted assistance is spread across multiple agencies.

One way to address this would be to create special demarcation zones in a limited number of high-need areas. These special demarcation zones would place a sizable proportion of the funds currently allocated to contracted social services by central agencies (Ministries of Health, Social Development, Education, Justice, Corrections and the Department of Internal Affairs) to a regional body able to allocate funding within the zone. These zones would decentralise control by empowering people who reside in the area and are part of the community to direct resources in a way that addresses local needs, and to experiment with new models of service provision.

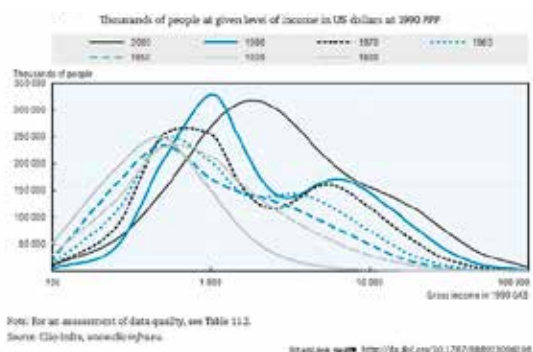
Such zones would represent a significant break from the past, and would carry significant policy risk. However, they would also have three key advantages. First, they would significantly reduce gaps in the need-decision-provision cycle for social services, and would contribute to more targeted and responsive service provision. Beyond this, special demarcation zones would allow for experimentation at the programme level and more rapid roll-out of national trials for programmes that worked locally. Finally, special demarcation zones would allow for experimentation at the regional level with different models of regional development. The emphasis

on experimentation here is deliberate. Devolving spending power to the regions creates opportunities to try out new things and learn – both from success and from failure – in a way that current structures have difficulty providing.

### 3. An employer of last resort

During the post-war period, wages for unskilled labour were set domestically, meaning that it was possible for someone with very low skill levels to earn a reasonable living in New Zealand. Globalisation has altered this equation, with wages for the low-skilled in developed countries converging with those in developing countries (Figure 1).<sup>7</sup> In large urban areas there may be sufficient demand for unskilled labour in local services to support a level of unskilled employment at first world wage levels, but this demand is missing in much of regional New Zealand.

Figure 1: Global income distributions in selected years, 1820–2000



While it is beyond the government’s power to rewind the global economy, the government can provide employment directly (as it currently does with approximately 47,000 civil servants and 300,000 people in the wider state sector). In fact, this was arguably part of the New Zealand government policy mix prior to the reforms of the 1980s when New Zealand Rail functioned as a buffer on the unemployment rate. In considering the role of the state as an employer of last resort in the 21st century, New Zealand should not return to placing the burden of employment on a key piece of the country’s transportation network. Nor should the state compete with the private sector on a large scale. Instead, any direct employment solution must meet three criteria.

First, it should focus on jobs that are labour intensive, low skilled, and which are currently not provided by the market. Green jobs, including contributing to the government’s goal of making New Zealand predator-free by 2030, are obvious candidates. Second, that the employment would need to represent real jobs, not ‘work for the dole’. Jobs would need to pay at least the minimum wage, and would be associated with the standard leave and other benefits associated with any job. Finally, the jobs should be regionally targeted to ensure that the spill-over effects from employment go to the highest need areas.

What would be the benefit of regional state jobs for the low skilled? Provided the jobs are not simply ‘work for the dole’, moving out of unemployment and into work is associated with a large increase in the self-assessed wellbeing of the newly employed, independent of the impact of higher income.<sup>8</sup> Beyond this, being in work could contribute to helping build a culture of work and provide a vehicle for skills development, contributing to better outcomes in the future. Direct employment used as a tool of social policy also has gains for the wider community. The net cost to the government is only the difference between the wages paid and the benefit level and, for this reason, it may actually be a cost-effective way to pursue regional (e.g. infrastructure development) or national (e.g. a predator-free New Zealand) goals.

### 4. Apply a social investment approach to investment in ‘hard’ regional infrastructure

Many countries – both developed and in the developing world – have specific regional development plans. In contrast to this, New Zealand tends to take a relatively centralised approach. However, despite our small population size, we are a relatively large country geographically, with significant regional differences in infrastructure needs. Poor infrastructure coincides geographically with areas that are among the most disadvantaged in social and economic terms, including Northland, the East Cape, and parts of the central North Island.

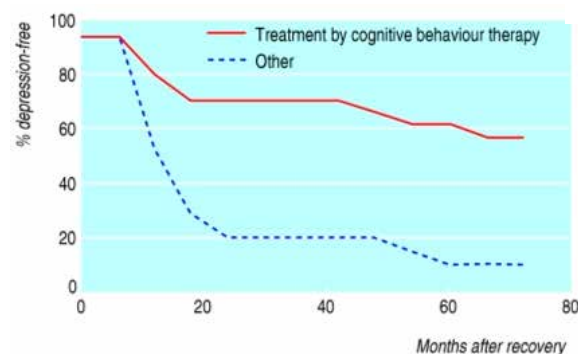
One obvious way to address regional disadvantage is to invest directly in regional development, particularly through ‘hard’ infrastructure such as roads and bridges. Currently strategic national infrastructure decisions are taken centrally on the basis of a cost-benefit analysis that is heavily weighted towards areas with more people and higher levels of economic activity. A broader social investment approach to regional infrastructure would weight regional economic development and the social gains from better regional infrastructure in deprived areas more heavily.

Beyond this, there are two additional gains. First, investing in regional infrastructure in places like East Cape or rural Northland would both increase tourist numbers in these areas – providing an economic boost – and assist in spreading the burden of tourism more evenly across the country. Second, improved infrastructure contribute to addressing another key issue repeated across the *TacklingPovertyNZ* workshops: the difficulty of access to services in rural areas.

### 5. Invest significantly in mental health.

Poor mental health is closely associated with poverty. This is because poverty can cause mental health issues (e.g. stress leading to depression) and because mental health issues can cause people to end up in poverty (e.g. substance abuse leading to job loss). The World Health Organisation estimates that half of all people with ill health in Western Europe suffer from mental health problems and the figure is likely similar in New Zealand.<sup>11</sup> Unfortunately, weighting of the health system towards physical health comes at the expense of wider provision of mental health treatments that show a very high return on investment whether in terms of medical outcomes,<sup>12</sup> fiscal returns,<sup>13</sup> or individual wellbeing.<sup>14</sup> In particular, cognitive behavioural therapy has been shown to work well in a UK context, and would likely have similar effectiveness here (Figure 2).<sup>15</sup>

Figure 2: Risk of relapse after recovery from depression



Increased investment in mental health is already a significant priority within New Zealand’s social policy mix. However, a consistent theme from the *TacklingpovertyNZ* workshops was that this could be strengthened and more pro-actively targeted towards those in need.



The gains from increased investment in mental health are clear. In addition to being a major cause of low wellbeing in and of itself, poor mental health has a strong negative impact on employment and incomes and is associated with higher levels of deprivation. A concerted effort to address mental health – particularly in the more deprived areas of the country – would address this while increasing the mental resources and coping skills of those managing with limited incomes.

## 6. Target the behavioural drivers of poverty

While behavioural insights in policy have so far largely focused on ‘nudges’ to encourage people to alter their behaviour, thinking about the behavioural drivers of poor decision-making in the context of poverty suggests ideas well beyond the occasional nudge. In particular, some of the largest sources of vulnerability in respect of poor decisions are the industries that exist to exploit the behavioural biases of the poor. Nobel Prize winners George Akerlof and Robert Shiller characterise such industries as ‘phishing for phools’,<sup>16</sup> but the reality is that many participants in the *TacklingPovertyNZ* workshops also identified these sorts of issues.

The poor are particularly vulnerable to bad decision making since the effort involved in coping with life on inadequate resources leaves little energy for dealing with one’s own internal biases; thinking rationally is tiring.<sup>17</sup> One lever to address poverty is to focus on industries such as gambling and alcohol that disproportionately target weaknesses in human decision making, and which particularly affect the population at risk of poverty. Loan sharks, for example, fundamentally thrive on the irrationality and short term bias of their clients.

While crude bans on social ‘bads’ of this sort have not historically been particularly effective, it may be worth investigating whether policy can be more efficiently targeted at either eliminating some of the techniques by which negative industries ‘phish’ for people. The effectiveness of anti-tobacco campaigns is worth considering here, even though this model has been most effective for higher socio-economic groups. A policy focus on the behavioural drivers of poverty would represent a relatively low-cost approach to addressing poverty and, if well implemented, could achieve significant results. Focusing on the behavioural drivers of poverty also allows for nuance. For example, it suggests recognising that whether a behaviour such as drinking is destructive depends heavily on context. This recognition might, for example, suggest targeting bottle store locations but continuing to allow pubs or other institutions that serve a socially useful purpose.

## 7. Introduce asset-based assistance for high-risk children

One of the key determinants of the life chances of children is the asset base with which they enter adulthood. Children from most New Zealand families will finish their schooling with a strong base level of skills and the support of their parents. Poverty, on the other hand, is closely associated with a lack, not just of current income, but of the assets that underpin better outcomes in the future. One idea that focuses on the issue of assets and capital stocks is the concept of asset-based welfare. This was influential with the British government in the first decade of the new millennium, and in New Zealand was influential in establishing the KiwiSaver scheme. However, proponents of asset-based welfare have often argued that a desirable goal would be to endow all school leavers with a

significant asset that could then be used to fund further education, a business idea, housing, or simply form the basis of lifetime savings. Although interesting conceptually, none of the asset-based programmes actually implemented have ever involved large sums simply because of the cost of instituting such a programme for all school leavers.

However, children at high risk of future poverty are a much smaller group. This is particularly the case for those most at risk – wards of the state. Because this group is relatively small it would be possible to implement an asset-based scheme that both involved significant enough levels of assets to make a difference to life chances and was affordable. Similarly, the negative consequences of becoming a ward of the state are high enough that there is comparatively little risk of inducing negative behavioural change (i.e. people trying to make their children wards of the state in order that they are eligible for assistance). The proposal is therefore to use wards of the state to test the impact of a relatively generous asset-based social policy scheme, with an endowment of ten to twenty thousand dollars received at age 18. Clearly the endowment would have limits on when the assets could be accessed and for what purposes.

A scheme of this sort would have three positive effects. First, it would direct a significant asset to some of New Zealand’s most disadvantaged citizens at a crucial juncture in their lives, having a direct effect on their ability to manage the post-school transition. Second, the mere fact of having an asset would have a positive impact on how people evaluate their options during secondary school. Knowing that the cost of tertiary education can be managed or that the capital exists to start a small business can affect the perceived payoffs to staying in school and putting the effort in to achieve there. Finally, the proposal would provide a strong test as to whether asset-based social policy actually works at a relatively limited cost.

## FINAL THOUGHTS

The explicit aim of *TacklingPovertyNZ* is to give a jolt to the New Zealand policy discourse with respect to addressing poverty and to try and shift the range of options that are given serious consideration. It is often the case that credible policy options are simply considered out of scope for reasons of perceived political feasibility, lack of profile, or degree of difference from the status quo. Politics, in its normal mode, is incremental. In fact, it is possible to imagine that policies to address any issue fall into three main groups: (a) policies that won’t work; (b) policies that work and are politically feasible; and (c) policies that might work but that are not politically feasible for one reason or another. Policies in category (a) are undesirable, and it can be assumed that most policies falling into category (b) are either already implemented or under consideration.<sup>18</sup> *TacklingPovertyNZ* and the ideas presented in this paper are focused on trying to identify policies in category (c). While it is certain that some of the ideas presented here will, on closer examination, prove not to be effective or politically feasible, it is only by looking at policies that lie outside the range of accepted policy knowledge that we stand a realistic chance of identifying the rare new idea that can actually make a difference.

This think piece was launched at the New Zealand Community Board Conference in Methven on 12 May 2017. For complete references and to find out more, visit our website: [www.mcguinnessinstitute.org](http://www.mcguinnessinstitute.org)



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