

Conal Smith

# TacklingPovertyNZ

## the nature of poverty in New Zealand and ways to address it

### Introduction

Poverty in New Zealand is one of the foremost challenges we face as a country. Child poverty rates remain persistently above rates in many other developed countries and well above the rates prevalent in New Zealand during the 1980s. Poverty is of particular concern in a number of parts 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 (Ministry of Social Development, 2010; New Zealand Treasury, 2017a).

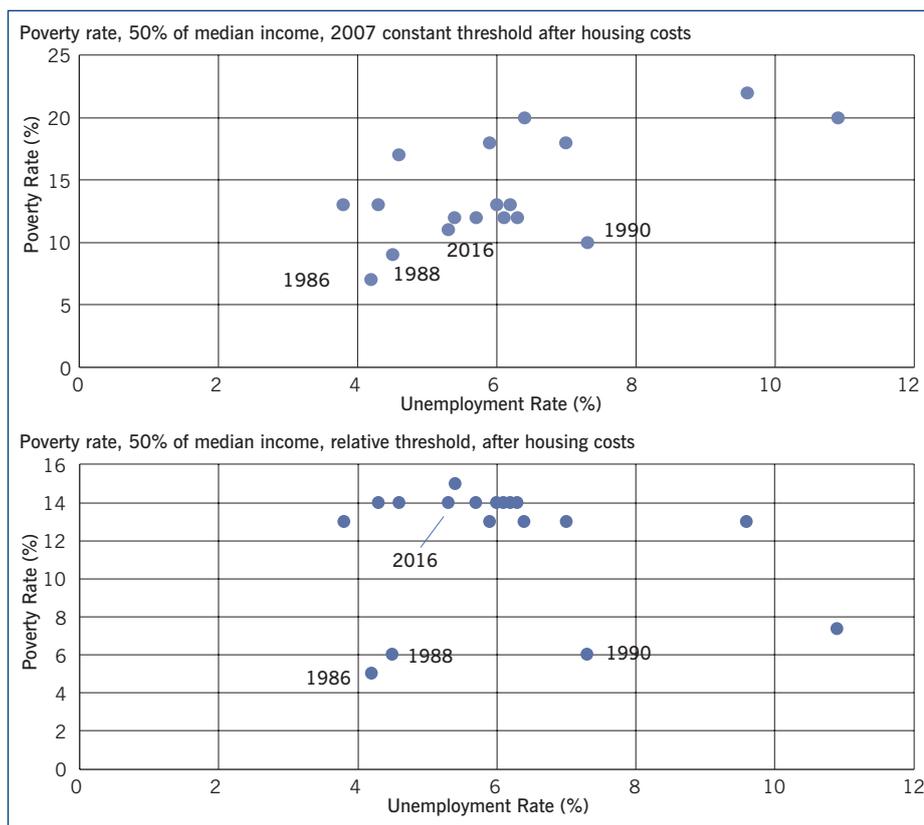
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Conal Smith is a Wellington-based economist with interests spanning the economics of well-being, social capital and trust, the behavioural drivers of economic outcomes, and social policy more generally. He led the development of the first international guidelines on the measurement of subjective well-being (2013) and trust (2017), as well as the OECD's first well-being-themed country report.

Historically high employment rates and unemployment rates that are low in terms of both international and historical comparison have failed to make a significant dent in New Zealand's poverty rates. The persistence of poverty despite a strong economy suggests that there is room to improve policy settings. In 2012 an expert advisory group on child poverty was established by the Office of the Children's Commissioner to look at solutions to child poverty and a report outlining a wide range of proposed policy reforms was released in 2013 (Expert Advisory Group on Solutions to Child Poverty, 2013). Although the proposed reforms achieved little traction immediately following their release, the Labour Party manifesto for the 2017 election committed the party to introducing legislation to set a child poverty reduction target during its first 100 days as a new government. With the formation of a Labour-led government following the October 2017 election, it is timely to consider approaches to tackling poverty.

In 2016 the McGuinness Institute launched TacklingPovertyNZ, with a focus on identifying new approaches to addressing poverty that were grounded in

**Figure 1: Proportion of the population below 50% of median income, constant threshold and relative threshold, vs unemployment rate, 1986 - 2016**



Source: Household Incomes Report, Perry, (2017); Infoshare, Statistics New Zealand

community experience and that might not have been identified through a process centred on Wellington. TacklingPovertyNZ brought together New Zealanders from a diverse range of backgrounds in six regional workshops aimed at gathering ideas on how to tackle the problem. Now, more than ever, ideas such as these will be important.

This article situates the TacklingPovertyNZ workshops in the context of what is known about the level and distribution of poverty in New Zealand and describes the main findings from the workshops. In particular, the article focuses on what the workshops reveal about how poverty is seen as a social issue outside policy circles, and explores ideas for addressing poverty that emerged from the workshops. In deciding which proposals to focus on, a conscious decision has been made to highlight ideas that fall outside the mainstream of policy discussion in New Zealand, but which nonetheless retain sufficient prima facie plausibility to warrant a second look. In doing so, the intent of the article is to complement the work of groups such as the Expert Advisory

Group and the Child Poverty Action Group, which have focused more closely on the tax–benefit system and particularly (in the case of the Expert Advisory Group) on child and family tax credits.

**Poverty in New Zealand: what we know about low incomes and how to address them**

The primary source of information on trends and levels of poverty in New Zealand is the regularly updated *Household Incomes in New Zealand* report published by the Ministry of Social Development (Perry, 2017), which provides information on income poverty trends using a number of different measures. Prior to the 1990s poverty rates in New Zealand were relatively low, ranging from 6% to 14% depending on the measure used (ibid., 2017). During the early 1990s poverty rates increased dramatically, and then stabilised to some degree over the last two decades. It is over this time that the choice of measure matters, with rates of relative poverty remaining high, while constant value measures of poverty – particularly before housing costs – fall significantly.<sup>1</sup> Poverty rates after adjusting for housing

costs, however, have remained well above 1980s levels, even using a constant value threshold.

It is not the intent of this article to review poverty trends in detail, but there are several features of poverty in New Zealand that are worth highlighting here. Figure 1 examines the relationship between poverty and unemployment. Despite a clearly expressed view from many politicians of both the left and right that jobs are the best tool to bring down poverty rates, it is evident that there is only a weak relationship between unemployment levels and poverty as measured against a constant value threshold, and there is essentially no relationship between unemployment rates and relative poverty. It can also be seen that the changes to the benefit system in 1991 resulted in a significant increase in poverty: poverty rates for the years prior to the cuts (1986, 1988, 1990) are lower than for subsequent years with equivalent unemployment rates. Note, however, that the impact of the 1991 benefit reforms was much larger when using a relative threshold than when poverty is measured using a constant value threshold.

While a wide range of different government programmes have an impact on both the prevalence and severity of poverty, in the English-speaking world anti-poverty policy has tended to focus on changes to the benefit system, tax credits, and often childcare. For example, tax credits, benefit changes and childcare were at the core of the Tony Blair Labour government’s 1999 commitment to end child poverty in Britain (Main and Bradshaw, 2015). The New Zealand government’s Working for Families package introduced in 2004 was centred on family tax credits to an even greater degree. More recently, the Expert Advisory Group’s main recommendations centred around a review of benefit rates, changes to the child tax credit and changes to housing policy. A wide range of more targeted proposals were also included, but the tax credit and benefit changes formed by far the most substantial part of the proposed programme, with an estimated cost of \$1.5–2 billion (Expert Advisory Group on Solutions to Child Poverty, 2013).

Both the tax–benefit system and policy changes aiming to encourage employment

are sensible ways to target poverty. However, as with all policy programmes, there is a law of diminishing returns. While there is a strong case for improving aspects of the existing system (including increased benefit rates or levels of tax credits – see *ibid.*), it remains the case that existing levels of poverty in New Zealand will become increasingly hard to eliminate with tools that are already extensively used. It is against this background that the McGuinness Institute launched TacklingPovertyNZ (see Box 1).

### Going beyond low incomes

In order to make sense of the proposals that emerged from TacklingPovertyNZ, it is necessary to have a sense of what the participants thought they were developing solutions to. In preparing for the TacklingPovertyNZ workshops, the McGuinness Institute considered both of the main definitions of poverty found in the literature on poverty measurement: ‘absolute’ poverty, where income is insufficient for a person or family to meet their basic needs; and ‘hardship’ poverty, where an individual or family is unable to achieve a ‘decent’ standard of living relative to New Zealand society (the 1972 Royal Commission on Social Security described this standard as ‘participation and belonging’). Both the absolute and hardship definitions of poverty are income-focused, and the main difference between them lies in how the income threshold defining what constitutes poverty is calculated.

In contrast to this, it was evident that most workshop participants saw poverty in different terms. In particular, poverty was viewed 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 poverty measurement has traditionally focused on incomes, the workshop respondents saw poverty as fundamentally multi-dimensional, and as best considered in terms of the negative outcomes associated with it.

Although there are good practical reasons for economists and others interested in measuring poverty to use precise and narrow definitions of the concept, it is important to acknowledge that the intuitive view of poverty put forward in the workshops is, in many senses, the more relevant.<sup>2</sup> We care about families with low incomes because of the effect of low incomes on other aspects of quality of life now, and because they contribute to low quality lives in the future. If low incomes did not cause hardship, poverty would not be a major social policy issue.

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 family. Finding a job for a family where the parents are both 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. Second and relatedly, it is crucial to think beyond incomes. No feasible transfer system – no matter how generous – can entirely eliminate poverty. An adequate income is clearly necessary to address poverty, but it may not always be sufficient. Finally, it is important to consider the interactions between the different consequences of poverty. These are non-linear, meaning that disadvantage in multiple fields may have a more severe impact than would be anticipated from the simple cumulation of effects associated with each area of disadvantage in isolation.

### Tackling poverty

What can be done? TacklingPovertyNZ highlights some basic points that must underlie any strategy to address poverty. First, there is a distinction between those factors that meet people’s basic needs in the short term, and those factors that allow people to take control of their lives in the longer term. The former ‘sustaining

## Box 1: TacklingPovertyNZ

TacklingPovertyNZ began as a three-day policy workshop run in December 2015 by the McGuinness Institute, a non-partisan think tank based in Wellington, in collaboration with the New Zealand Treasury. This workshop saw 36 New Zealanders aged between 18 and 25 brought together to discuss poverty in New Zealand and how it might be tackled. A key suggestion from the workshop was that poverty is a complex issue and that a centrally driven approach might not lead to the best solution. Following up on this suggestion, between March and September 2016 the McGuinness Institute organised a series of regional workshops.

In total, six TacklingPovertyNZ workshops were held, in Queenstown, Manawatū, Rotorua, Gisborne, Kaitiāia and Kaikohe, involving 400 participants. Each workshop was

run with the support of local councils and included both local and national speakers, as well as participants from a diverse range of backgrounds. Each workshop focused on different issues self-selected by participants and related to the nature of poverty in their area and how to address it. In total, the TacklingPovertyNZ workshops identified 240 ideas or proposals for tackling poverty in New Zealand. These 240 ideas are described in the McGuinness Institute working paper *TacklingPovertyNZ 2016 Tour: methodology, results and observations* (McGuinness and Bunge, 2017). They include a wide range of suggestions focused at the individual, family, community, regional and national levels, and addressing a number of causes and consequences of poverty.

factors' address the basic needs that must be met for subsistence before any thought can be given to the longer term, while the latter 'empowering factors' cover the capabilities required to exercise control over one's life (McGuinness and Bunge, 2017). Tackling poverty requires addressing both sustaining and empowering factors. A second point is that the drivers of poverty occur at different levels. Some things, such as human capital, are specific to the individual or family. Others, such as the local job market or transportation infrastructure, are primarily regional in nature, while some factors, such as the social assistance system, are national issues.

proactively make use of government support to achieve longer-term goals.

Finally, TacklingPovertyNZ emphasised the range of possible responses to poverty. 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 was explicitly to widen the debate. Because of this, ideas widely discussed elsewhere – such as a universal basic income and reforms to social housing – are not considered further in this article in favour of proposals

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.

#### *Simplify and standardise the benefit system*

The current welfare system (1991 to the present) 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 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 be a significant drain on beneficiary time and effort that could be better used elsewhere. Mani et al. (2013) argue that policy designers should beware of imposing cognitive taxes on the poor and note that 'filling out long forms, preparing for a lengthy interview, deciphering new rules, or responding to complex incentives all consume cognitive resources'. Equally importantly, the system is very badly designed from the point of view of encouraging benefit recipients to manage independently. The existence of extensive supplementary and discretionary assistance is both directly contrary to an ethos of self-reliance, and also requires both beneficiaries and MSD case workers to devote extensive time to requesting and processing additional assistance.

Prior to 1991, 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 1991 benefit cuts were intended to improve work incentives by reducing

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Another important point highlighted in TacklingPovertyNZ is the role of security as part of meeting basic needs. While there are useful pieces of work looking at income security and poverty (see Easton, 2014), most analyses of poverty focus on the status of an individual or family at a particular point in time, or, if they do consider longer periods of time, focus on the average situation of the family. However, for any given situation the level of security experienced by people has important implications for their overall level of well-being (De Neve et al., 2015) and for their behaviour (Mani et al., 2013).

Civic literacy was also widely discussed. The need for more education on the role of government, the purpose of taxation and the rights of people in New Zealand were brought up many times in the workshops. This was a crucial element of the empowering factors identified in TacklingPovertyNZ. One of the key things that distinguishes those trapped in a cycle of poverty as opposed to those able to move to a better situation is an ability to

that have been given less consideration, and which are grounded in the TacklingPovertyNZ workshops.

#### **A wider range of policy options**

Not all of the 240 ideas generated through TacklingPovertyNZ are viable, and many of those that are viable are either highly specific to a particular set of circumstances or very general indeed. Nonetheless, within the wide range of options proposed it is possible to identify seven proposals that are worth highlighting. None of the seven ideas draws on just one comment from the workshops. Instead, they reflect themes or suggestions that were repeated more than once. Each of the proposals was selected on the grounds that it has sufficient prima facie validity to be worthy of further development, although in all cases the value of the proposal would depend crucially on the precise details that emerged through the policy development process. The seven proposals are to:

1. simplify and standardise the benefit system;

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, the most important effect was to move the burden of managing additional costs from the benefit recipient to the state.

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 lower administrative costs for 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 on beneficiaries, resulting in a net gain in well-being even without behavioural change. Finally, a simpler system with less discretionary assistance would encourage a culture of managing on a fixed income. Moving from a benefit into work would no longer involve a distinct adjustment from a need-based system to a fixed income.

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

It is abundantly clear that much of New Zealand's poverty is regional in nature. While differences between individuals and families undoubtedly explain a lot about poverty, there is strong evidence that region plays an important role. Northland, the East Cape and some areas of the central North Island have a long history of disadvantage spread across multiple different outcome areas (Ministry of Social Development, 2010; New Zealand Treasury, 2017a). 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 and allocated by central bureaucracy. The

TacklingPovertyNZ workshops highlighted the uncoordinated nature of many regionally focused social services. This issue is exacerbated by the mismatch between the regional boundaries used by different government agencies (see McGuinness and Bunge, 2017 for examples).

One way to address this would be to create special demarcation zones in a limited number of high-need areas. Regional demarcation zones would place a sizeable proportion of the funds currently allocated to contracted social services by central agencies (ministries of Health,

would allow for experimentation at the programme level and more rapid roll-out of programmes that worked locally. Finally, special demarcation zones would allow for experimentation at the regional level with different models of regional development (see also the section below on applying a social investment approach to investment in 'hard' regional infrastructure). The emphasis on experimentation here is deliberate. It is likely that any significant devolution of funds will involve a non-trivial risk of failures – particularly as the proposed regional governance boards are

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Social Development, Education, Justice and Corrections and the Department of Internal Affairs) in the hands of a regional body able to allocate funding within the zone. The zones would decentralise control by empowering a governance board of 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. The governance board would be put in place with a clear purpose, measurable goals and an agreed demarcation boundary. Supported by an external advisory board that includes government officials, the local governance board would have the authority to both allocate resources, and possibly also set aspects of local economic regulation in order to achieve its targets.

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

likely to have less experience and infrastructure to support social policy decision making. However, 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.

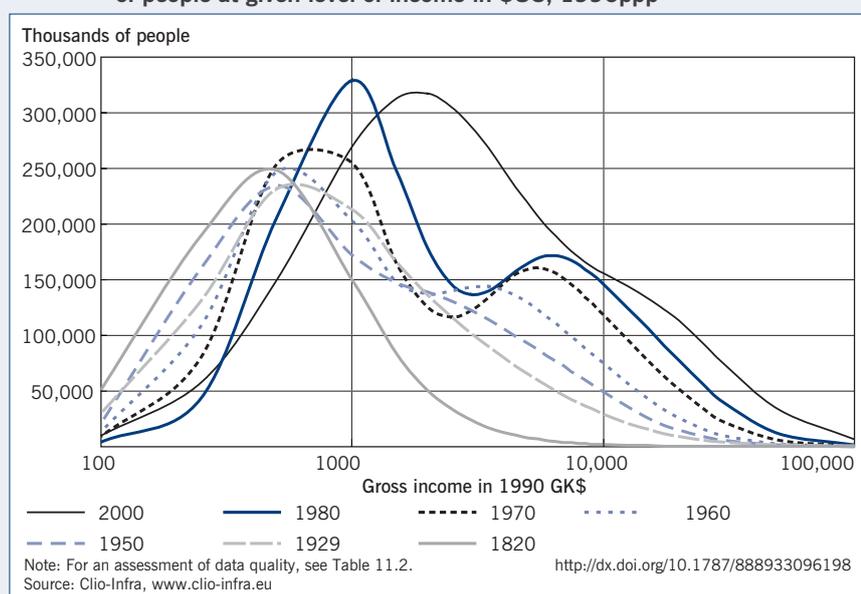
#### *An employer of last resort*

New Zealand's existing policies aimed at addressing poverty are predicated on the view that the whole labour force is employable, and that benefits exist to support people while they look for work. Exceptions to this state of affairs are viewed as the result of economic cycles rather than long-term historical trends. However, long-term trends do matter, and a proportion of New Zealand's labour force may simply be unemployable in the current context. During the post-war period, wages for unskilled labour were set domestically, meaning that it was possible for someone with very low human capital to earn a reasonable living in New Zealand through their own work. Globalisation has altered this, with wages for the low skilled in developed countries converging with those

## Box 2: The changing global income distribution

Figure 2 shows the distribution of incomes at a global level between 1820 and 2000 (Van Zanden et al., 2014). Prior to the Second World War (1820, 1929), the global income distribution had a single peak corresponding to working-class incomes in both the developed and developing world. However, in the years 1960, 1970 and 1980 the global income distribution evolved two peaks as the incomes of blue-collar workers in the developed world pulled away from those of the developing world working class. By 2000, however, the impact of globalisation has pushed the distribution back to a single peak corresponding to the incomes of the working class in low- to middle-income countries such as China.<sup>3</sup>

**Figure 2: Global income distributions in selected years, 1820-2000. Thousands of people at given level of income in \$US, 1990ppp**



Source: How Was Life?, Van Zanden et al. (2014)

in developing countries (see Box 2).

In large urban areas there may be sufficient demand for labour in local (non-tradable) services to support a level of unskilled employment at First World wage levels, but this demand is missing in much of regional New Zealand. Further, the demand for low-skill labour in the service sector may not align well with the skills of the unemployed in the regions (e.g. a 50-year-old ex-freezing worker may not adapt well to provision of elder care as a career). In regional areas those without marketable skills may simply be unemployable at any wage rate acceptable within New Zealand society (Moretti, 2012).

While it is beyond the government's power to rewind the global economy to the post-war period, it is not unfeasible for the

government to 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 the Railways Department functioned as a significant buffer on the unemployment rate. In considering the role of the state as an employer of last resort in the 21st century, it is not envisaged that New Zealand should return to placing the burden of employment on a key piece of the country's transportation infrastructure. Nor is it envisaged that the state should enter into competition 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. A second consideration is that the employment would need to represent real jobs, not 'work for the dole'. In other words, the jobs would need to pay at least the minimum wage, and would have the standard leave and other benefits associated with any job. Not only will this increase the likelihood of participation and more meaningfully contribute to reducing poverty; it will also have a direct impact on well-being (Boarini et al., 2013). The evidence suggests that the non-pecuniary costs of unemployment are so high relative to the impact of income that providing a job should be preferred to providing a benefit, even if the benefit rate were at the same level as the income from the job. Beyond the impact on the current well-being of the employed person and their immediate family, being in work could contribute to helping build a culture of work and provide a vehicle for human capital development, contributing to better outcomes in the future.

*Apply a social investment approach to investment in 'hard' regional infrastructure<sup>4</sup>*

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. This is grounded in the small size of the New Zealand population and centralised governmental structure. However, despite its small population size, New Zealand is a relatively large country geographically, with significant differences in infrastructure across the country. 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. It is certainly not coincidental that these areas are the regions where iwi were most successful at holding onto their land during the 19th century, and which are subsequently characterised by high levels of Māori land ownership and historically low levels of infrastructure investment from central government.

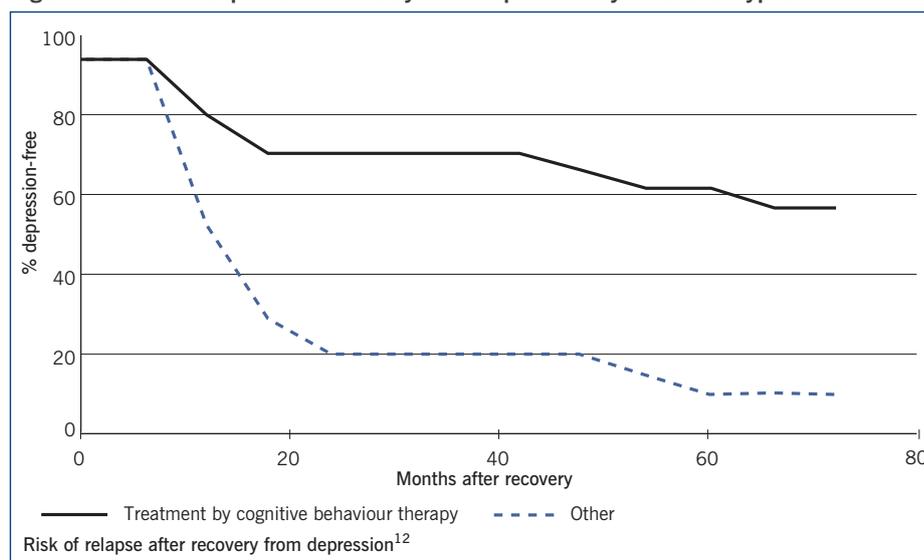
Direct investment in regional development, particularly through ‘hard’ infrastructure such as roads and bridges, is one obvious way to address regional disadvantage. Strategic national infrastructure decisions are currently made centrally on the basis of a cost-benefit analysis that is heavily weighted 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 towards deprived areas more heavily.

Building the infrastructure would, itself, direct economic resources into the regions, with a strong tilt towards areas of work that employ lower-skilled labour. Beyond this, there are two additional gains. Tourist numbers in New Zealand are currently high, placing significant pressure on traditional tourist destinations (LGNZ, 2016). Investing in regional infrastructure in places like the East Cape or rural Northland would increase tourist numbers in these areas – providing an economic boost – and assist in spreading the burden of tourism more evenly across the country. In addition, improved infrastructure would contribute to addressing another key issue repeated across the TacklingPovertyNZ workshops – the difficulty of access to services in rural areas.

#### *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). In the 2012/13 New Zealand Health Survey, 17.1% of adults living in the most deprived areas had been diagnosed with a common mental disorder at some time in their lives, a rate 1.6 times higher than among adults living in the least deprived areas (after adjusting for age, sex and ethnic differences). However, mental health remains the poor cousin of physical health in the New Zealand health system. The irony here is that there are mental health treatments that work, and that such treatments show a very high return on investment whether in terms of

**Figure 3: Risk of relapse after recovery from depression by treatment type.**



Source: Layard, (2006).

medical outcomes (e.g. quality-adjusted life years; Layard, 2006) or individual well-being (Layard, 2005). Cognitive behavioural therapy,<sup>5</sup> for example, has been shown to work well in a British context, and would likely have similar effectiveness here (Figure 3).

Increased investment in mental health is already a priority within New Zealand’s social policy mix and it recently received significant additional funding as part of the 2017 Budget (New Zealand Treasury, 2017b). However, it was a consistent theme across the TacklingPovertyNZ workshops that this could be further strengthened and more proactively targeted towards those in need. A particular concern with mental health service provision is that, like other forms of health services, it is most effectively used by those with relatively high levels of human and economic resources to draw on. In contrast, to make a difference to poverty, mental health services will need to reach those who are least able to reach out themselves.

The gains from increased investment in mental health are clear. In addition to being a major source of misery in and of itself, poor mental health has a strong negative impact on employment 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 combine a significant direct effect on poverty through increased employment and incomes with a less direct, but important, effect on

poverty by increasing the mental resources and coping skills of those managing with limited incomes.

#### *Target the behavioural drivers of poverty*

A common theme emerging from the TacklingPovertyNZ workshops was the impact of a ‘culture’ of poverty and the role of alcohol, gambling and loan sharks in trapping families in poverty. These issues revolve around human irrationality in behaviour and limits on decision-making capability. The effort involved in coping with life on inadequate resources leaves little energy for dealing with internal biases. Thinking rationally is tiring (Kahneman, 2011), and hard to do for a person who needs to spend all their energy on simply coping with life in the absence of adequate resources (Mani et al., 2013).

One policy lever to address poverty is to focus on the environment in which people find themselves and help remove the most obvious environmental pressures towards patterns of damaging behaviour. Loan sharks, for example, thrive fundamentally on the irrationality and short-term bias of their clients. Gambling and alcohol are other industries that disproportionately target human vulnerabilities, and which particularly affect the population at risk of poverty. Akerlof and Shiller (2016) characterise such industries as ‘phishing for phools’, but the reality is that many participants in the TacklingPovertyNZ workshops also identified these sorts of issues.

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 effectively targeted at either eliminating some of the techniques by which negative industries ‘phish’ for people (i.e. the ways in which systematic biases in people’s behaviour are exploited for commercial ends) or if there are effective ‘nudges’ that can be deployed to discourage people from consuming social ‘bads’ excessively. The effectiveness of anti-tobacco campaigns is worth considering here, even though this model has been most effective in higher socio-economic groups.

## Poverty is closely associated with a lack not just of current income, but of the assets that underpin better outcomes in the future ...

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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 in policy. 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 (Dunbar et al., 2016).

### *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 human capital and the support of their parents in implicitly underwriting the risks involved in starting a business or undertaking further study. Poverty is closely associated with a lack not just of current income, but of the assets that underpin better outcomes

in the future (Kim and Sherraden, 2011). Simply topping up current incomes does not automatically address the capital deficit associated with long-term poverty.

One idea that focuses on the issue of assets and capital stocks is the concept of asset-based social policy. This was influential in the United States during the late 1990s (Ackerman, 1999) and with the British government in the first decade of the new millennium (Emmerson and Wakefield, 2001; Dolphin, 2009). In New Zealand, asset-based welfare was influential in establishing the KiwiSaver scheme. Most asset-based social policy initiatives focus on building up savings or even endowing

people with a small quantity of savings as an inducement to save. However, the core idea behind asset-based welfare was never limited to relatively small savings incentives. In fact, proponents of asset-based social policy 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 or housing, or simply form the basis of lifetime savings (Ackerman, 1999). Although interesting conceptually, none of the asset-based programmes actually implemented have ever involved large sums, simply because of the fiscal cost of instituting such a programme for all school leavers.

In fact, asset-based social policy would be an inefficient use of government funds if targeted widely. As mentioned above, most young adults leave home with strong human capital and the support of parents who – even if they cannot provide them with a large lump sum of money – nonetheless do form a sort of safety net in the face of life’s risks. However, those children most at risk of future poverty often lack both high levels of human capital and the support of a family with

strong resources. 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 focused on wards of the state that both involved significant enough levels of assets to make a difference to life chances and was fiscally reasonable. 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 in the tens of thousands of dollars. Clearly, like existing savings schemes, the endowment would have limits on when the assets could be accessed and for what purposes. Education, starting a business and buying a house, for example, would all qualify. 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 pay-offs of 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.

### **Conclusion**

The explicit aim of TacklingPovertyNZ was 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. TacklingPovertyNZ, and the ideas presented in this article, are focused on trying to identify policies in category (c).

A traditional policy response to the range of options identified through TacklingPovertyNZ would be to consider the relative merits of each and arrive at a recommendation as to the preferred course of action. No such attempt to identify a 'best' option is made here. There are two reasons for this. The first reason is that poverty is multi-dimensional, both in its causes and in its consequences. This suggests that anti-poverty policy also needs to be multi-dimensional. A suite of different approaches to addressing poverty is likely to be more effective than placing too much weight on a relatively narrow set of policy levers. This is true both from the perspective of the net impact on poverty, and also in terms of the political viability

of proposals to address poverty. Maintaining a broad base of support for measures to eradicate poverty is difficult when the policies in question are seen to benefit only a narrow slice of society (Korpi and Palme, 1998). In contrast, a suite of different measures has a better chance of engaging support from different parts of society.

More generally, the increasing availability of data on social outcomes and ability to analyse it suggests moving from an ex ante evaluation strategy for policy (where options are considered upfront and resources channelled to the preferred choice) to an ex post evaluation strategy that is more experimental in nature and places an emphasis on trying many things and evaluating what works. To be successful, however, such an approach requires, not only data on social outcomes, but also a relatively high tolerance for failure, and places a high premium on variety. It is in this context that the range of options identified in TacklingPovertyNZ are of greatest interest. Four of the options in particular – 2, 3, 5 and 7 – would lend themselves strongly to an experimental approach. However, this also highlights the limitations of a community-driven consultation such as TacklingPovertyNZ. While ideas are generated, fully developed

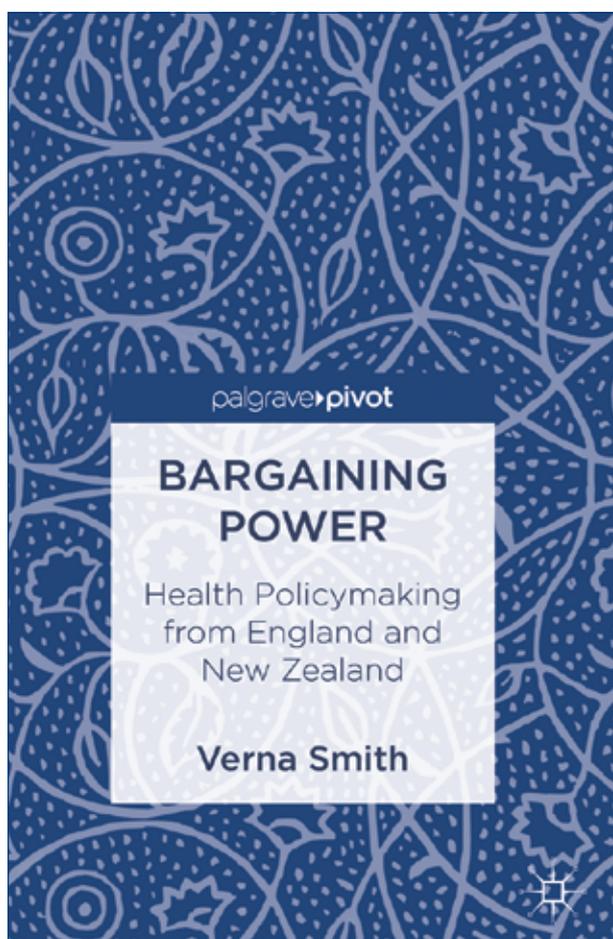
policy proposals are not. Moving from idea to policy proposal to experiment is an area where collaboration between communities, social entrepreneurs and local government might be fruitful, particularly if this is supported by significant data and analytical expertise from central government. However, it is not immediately clear how best to catalyse such action.

- 1 With a constant value poverty threshold, poverty is defined as having an income below a threshold set relative to median income in a given year and adjusted to remain constant in real terms thereafter. A relative threshold defines poverty as having an income below a threshold set relative to median income in each year.
- 2 Distinct from narrow definitions of income poverty, a multi-dimensional view of poverty actually has strong empirical and conceptual foundations. Sabina Alkire, for example (Alkire, 2008), grounds a multi-dimensional conception of poverty in Amartya Sen's capabilities approach to measuring welfare (Sen, 1998). Here, poverty is seen as deprivation in the capabilities required for a person to pursue the sort of life they have reason to value.
- 3 Note that, from a global perspective, this shift in incomes represents a significant welfare gain to the large numbers of people moved out of absolute poverty in places such as China and India.
- 4 Social investment involves investing resources upfront to enable people to thrive in the longer term, with a particular focus on using data to identify people's needs and to help understand the impact of government expenditure on the government's future fiscal position. In this context, it involves recognising that hard physical infrastructure has social as well as economic benefits that should be taken into account.
- 5 Cognitive behavioural therapy is a type of psychotherapy which focuses on helping a patient to develop personal coping strategies that target current problems and on changing unhelpful beliefs or attitudes. It is one of the most widely used and best supported empirically mental health treatments for anxiety and depressive disorders.

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