



Living standards of the low-income population

■ Introduction

Over the past 15 years, the characteristics of the bottom third of the income distribution have changed. Sole-parent families with dependent children, income-tested beneficiaries and unemployed people have come to make up a greater proportion of those with incomes that place them in the bottom third of the distribution. Factors which have contributed to this include New Zealand's economic performance and its effect on the demand for labour. Rising unemployment in the late 1980s and early 1990s and the 1991 cuts to income-tested benefits combined to further reduce the incomes of many low-income New Zealand families (Mowbray 2001).

Over the past decade there has been keen interest in how those with low incomes have been faring. Most of this work has dealt with the shape of the income distribution, the characteristics of those whose incomes fall below particular thresholds, and changes in the incomes of particular sub-groups of the population in relation to others (Podder and Chatterjee, 1998). This type of work provides useful information on trends and can be based on routinely collected statistical information (for example, information collected by Statistics New Zealand's regular Household Economic Survey). Its limitation is that it does not recognise that families with the same income can have differing living standards (resulting from differences in their levels of financial assets, levels of debt etc.), and it does not take account of differences in incomes among those below a particular income threshold (Krishnan et al, 2002).

Relatively little New Zealand work has attempted to make an explicit link between particular income levels and the real world implications that a particular income level might have for an achieved standard of living⁶⁶.

⁶⁶ One exception has been the work of Stephens, Waldegrave and Frater, who have employed family focus groups to establish the face validity of income levels below which their recipients might reasonably be expected to be experiencing difficulty (see Stephens, R., et al, 'Measuring poverty in New Zealand', Social Policy Journal Issue 5, Ministry of Social Policy, Wellington, 1995).

The analysis in this chapter examines the living standard scores of those in economic family units whose equivalised disposable incomes place them in the bottom third of the distribution of equivalent income.

Because of the policy interest in low-income families, this group has been further sub-divided into three mutually exclusive groups:

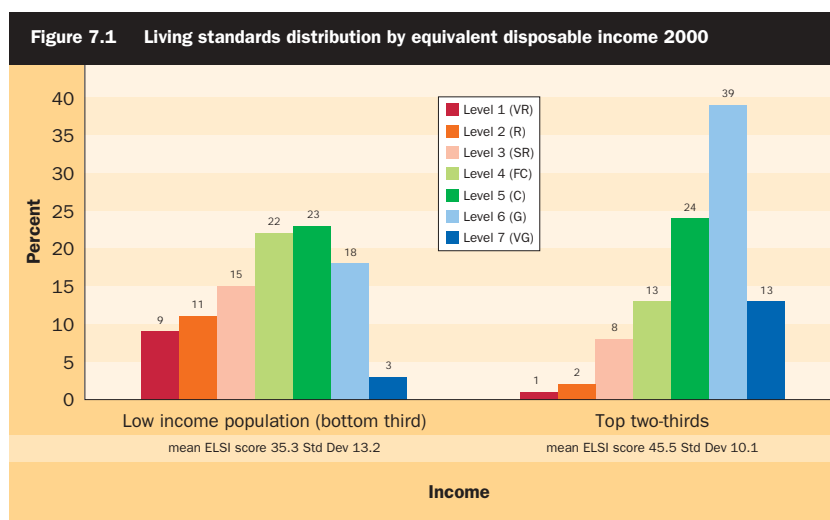
- those in economic family units where there was receipt of an income-tested primary benefit in the last 12 months and no one was in full-time employment at the time of the survey;
- those in economic family units where there was receipt of New Zealand Superannuation⁶⁷;
- those in economic family units who are in neither of the above two categories and who therefore received their income primarily from market sources.

Adopting a definition of 'low-income' inevitably involves a degree of arbitrariness. The lower the threshold, the greater will be the contrast with the rest of the population but the smaller will be the size of the low-income group, limiting scope for further analysis. The decision to focus on the bottom third was made to provide sufficient cases for further breakdowns to be possible and to ensure that the situation of the resulting sub-populations could be examined.

67 Some of the population here may have been in receipt of an income-tested benefit at some time during the past 12 months, but were full-time employed at the time of the survey. Similarly, some NZS recipients may have received an income-tested benefit before qualifying for NZS during the year. Some in the income-tested benefits group may also have received income from market sources during the year but were not in full-time employment at the time of the survey.

Overall distribution

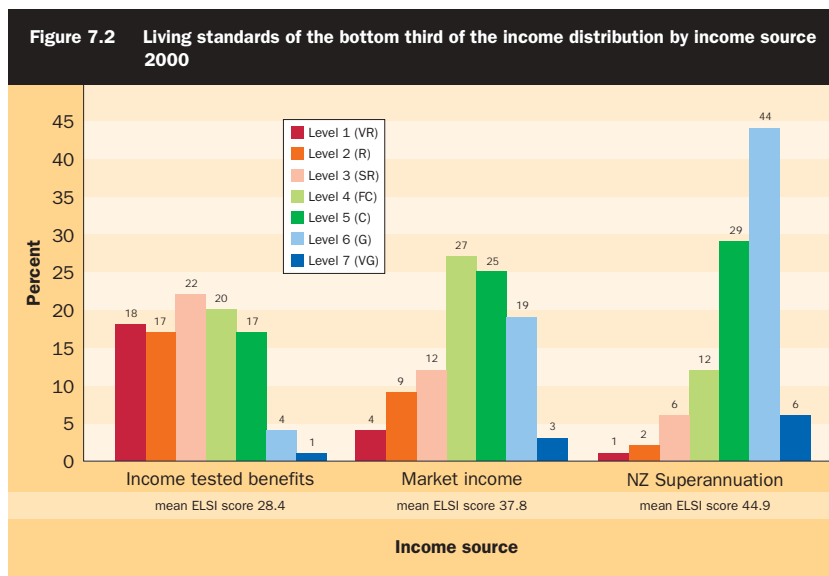
There are no surprises in the finding that there is a large contrast in the living standards distribution of those in the bottom third of the income distribution and the top two-thirds of the income distribution. Those in the bottom third had appreciably lower living standard scores than those in the top two-thirds (see Figure 7.1). Amongst those in the bottom third of the income distribution, 35 percent had scores on the ELSI scale that placed them in the lowest three categories of the seven category scale, 45 percent had scores that placed them in the 'fairly comfortable' or 'comfortable' category of the scale and 21 percent had scores that placed them in the 'good' or 'very good' living standards categories of the scale. Contrasting proportions for those with equivalised incomes that placed them in the top two-thirds of the income distribution were 11 percent, 37 percent and 52 percent respectively.



Income source

While the living standard scores of those in the bottom third of the income distribution were considerably lower than in the top two-thirds, there was wide variation between the scores of those in the bottom third depending on their source of income. Overall, those receiving income-tested benefits had lower scores than those receiving market income, who in turn had lower scores than those receiving New Zealand Superannuation. For those in receipt of income-tested benefits, 57 percent had ELSI scores that placed them in one of the three lowest scale categories. This proportion decreased to 25 percent for those in receipt of market income and declined further to 9 percent for those in receipt of New Zealand Superannuation. Only 5 percent of those receiving benefit income had ELSI scores that placed them in the ‘good’ or ‘very good’ living standards categories of the scale. This proportion increased to 22 percent for those receiving market income and increased further to 50 percent for those receiving New Zealand Superannuation (see Figure 7.2).

Those on income-tested benefits had an average ELSI score that was substantially below the national average (13 points lower). In contrast, those receiving New Zealand Superannuation had an average ELSI score that was somewhat higher than the national average (44.9 compared with 41.9) (refer to Chapter 3 for discussion on the living standards of older New Zealanders).



■ Relationship between living standards and financial circumstances in the low-income group

The previous section of this chapter has shown that there is considerable variation in the living standards of those in the bottom third of the equivalent disposable income distribution.

The question naturally arises as to what factors are associated with this variation. Earlier work on the living standards of older New Zealanders identified income, accommodation costs, tenure, asset position and education as being factors associated with variations in living standards amongst older New Zealanders. Previous chapters have shown that these factors are associated with variation in living standards found amongst the population as a whole.

The following analysis examines this issue by standardising average living standard scores for the factors identified above to see how much of the variation in living standards amongst the three low-income groups remains after standardisation. It is likely that at least some of these factors are interrelated, not only with each other, but also with a wide range of factors that have not been captured by the current working-age data. Consequently the results reported below can only be regarded as exploratory.

Income

The majority (72 percent) of the low-income population who are receiving income-tested benefits have equivalent disposable incomes under \$10,000. This proportion falls to 52 percent for those receiving market income and falls sharply to 9 percent for low-income NZS recipients. Standardising average living standard scores for variations in income between these three groups reduces the difference between the highest mean ELSI score and the lowest mean ELSI score from 16.5 to 13.2 (see Table 7.1). This suggests that differences between those receiving their income from each source do not just reflect the level of income received.

Table 7.1 Distribution of low-income population by equivalent disposable income (2000)

		\$10,000 or less	\$10,000 - \$20,000	Total	Mean ELSI score standardised for income ⁶⁸
Low income - benefits	Population proportion	72.1%	27.9%	100.0%	29.5
	Mean ELSI score	27.6	30.5	28.4	
Low income - market	Population proportion	52.1%	47.9%	100.0%	37.8
	Mean ELSI score	37.2	38.4	37.8	
Low income - NZS	Population proportion	9.1%	90.9%	100.0%	42.7
	Mean ELSI score	43.5	45.0	44.9	
Total low income	Population proportion	51.7%	48.3%	100.0%	
	Mean ELSI score	31.9	39.0	35.3	

⁶⁸ The standardisation process used here has the effect of adjusting the ELSI score to the values they would have had if there were no differences in equivalised income. The purpose is to get an indication of the extent to which the observed living standard differences between the three groups are simply a reflection of income differences between the groups. The standardisation is subject to certain assumptions that probably are not met exactly. However, prior experience suggests that it serves to give a useful broad indication of the extent to which factors other than income are likely to be operating to influence living standards. The standardisation is based on the linear regression between ELSI and the log of equivalised disposable income (EDY). The logarithmic transformation of income was applied because prior analysis had shown that relationship between ELSI and EDY is approximately logarithmic. ELSI scores were adjusted on the assumption that the incremental change in income would produce a consequential incremental change in the ELSI score of a size determined by the gradient of log (EDY) in the regression equation. ELSI scores were adjusted to the estimated value they would have had if all incomes had been the same, with the common income set at the level that resulted in no change in the mean of ELSI for the population. The extent to which the standardisation is realistic is dependent on several considerations that influence it in opposite ways. The measures used (especially the income measure) are known to contain errors. This, of itself, would weaken the standardisation. However, the procedure takes account of only one of many factors that almost certainly affect living standards. Because many of these factors (e.g. assets, income of parents) are known to be correlated with income, the income variable will "pick up" some of their explanatory power, giving it the appearance of being more important than it is. That is to say, the regression will overestimate the importance of income, producing a higher estimate than it would have done if other relevant variables had been included. This, of itself, would result in an "over-adjustment" (i.e. one that was inflated). On balance, the latter effect probably outweighs the former, but this is speculative.

Accommodation costs

The majority of low-income NZS recipients (83 percent) had no accommodation costs while the majority of the other two low-income groups had accommodation costs. Two-thirds (66 percent) of low-income beneficiaries had accommodation costs between \$1 and \$200 per week while a further 13 percent had weekly costs of \$200 or more per week.

Overall ELSI means fall with rising accommodation costs for all three low-income groups. When accommodation costs are taken into account, the difference between the highest and lowest mean ELSI score reduces from 16.5 to 12.7 (a substantial reduction) suggesting that accommodation costs are associated with living standards for the low-income population (see Table 7.2).

Table 7.2 Distribution of low-income population by weekly accommodation costs (2000)

		Nil	\$1 - \$199	\$200 or more	Total	Mean ELSI score standardised for housing costs*
Low income- benefits	Population proportion	21.3%	65.8%	12.9%	100.0%	29.6
	Mean ELSI score	35.2	26.4	25.3	28.4	
Low income-market	Population proportion	32.3%	43.0%	24.7%	100.0%	38.3
	Mean ELSI score	44.0	35.4	32.7	37.8	
Low income-NZS	Population proportion	83.2%	16.1%	0.7%	100.0%	42.3
	Mean ELSI score	46.0	39.5	41.5	44.9	
Total low income	Population proportion	38.7%	46.3%	15.0%	100.0%	
	Mean ELSI score	43.0	30.7	30.3	35.3	

* The standardisation procedure used here applies the accommodation cost distribution of the total low-income population to each of the three low-income groups and thereby produces an average ELSI score standardised for accommodation costs.

Another means of examining the relationship between housing costs and living standards is to use an indicator of affordability. A commonly used indicator of affordability is a ratio of housing cost outgoings to income. High housing costs relative to income are often associated with severe financial difficulties, especially among low-income families, and can leave families with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education. The ratio reported here is the same as that reported in the 2001 Social

Report (Ministry of Social Policy, 2001). Amongst the low-income population, there is a clear relationship between housing cost outgoings to income (OTI) and living standards. Those with OTI greater than 30 percent of income tended to have lower average living standard scores than those with OTI less than 30 percent of income (see Table 7.3).

Housing tenure

The majority of low-income NZS recipients (92 percent) owned their own homes. Low-income benefit recipients were the least likely to own their homes with or without a mortgage (69 percent) while 79 percent of the low-income market group also owned their homes with or without a mortgage.

Of note in Table 7.4 is the very low living standard scores of those renting from Housing New Zealand, particularly amongst the low-income benefit and low-income market populations. This is primarily due to the selection-bias associated with HNZ rentals which are allocated on the basis of need (refer to discussion in Chapter 3 on HNZ tenancies). Standardising for housing tenure made very little difference to the mean ELSI scores of the three groups, or to the difference between the highest and lowest mean ELSI scores amongst the three groups.

Table 7.3 Mean ELSI scores by housing cost outgoings to income (OTI) ratio (2000)

	OTI <=30%	OTI >30%
Low income - benefit	30.2	26.1
Low income - market	41.2	31.3
Low income - NZS	45.4	38.9
Total low income	38.6	28.8

Table 7.4 Distribution of low-income population by tenure circumstances (2000)

		Rented - HNZ	Rented - Private	Owned*	Total	Mean ELSI score standardised for housing tenure**
Low income- benefits	Population proportion	6.1%	24.6%	69.4%	100.0%	28.6
	Mean ELSI score	23.8	27.7	29.1	28.4	
Low income-market	Population proportion	5.0%	16.0%	79.0%	100.0%	37.7
	Mean ELSI score	25.6	35.5	39.0	37.8	
Low income-NZS	Population proportion	2.9%	5.6%	91.5%	100.0%	44.4
	Mean ELSI score	37.9	42.1	45.3	44.9	
Total low income	Population proportion	5.0%	17.4%	77.6%	100.0%	
	Mean ELSI score	26.0	31.4	36.8	35.3	

* Includes owned with or without a mortgage and owned family trust, family and/or other.

** The standardisation procedure used here applies the housing tenure distribution of the total low-income population to each of the three low-income groups and thereby produces an average ELSI score standardised for housing tenure.

Asset position

Two different variables are available to examine asset position, i.e. the number of assets owned excluding the family home and the value of assets excluding the family home⁶⁹. In this analysis both these variables have been examined as they both seem to affect living standard scores.

Asset value

Average living standard scores for all three groups generally increase as the value of assets increases. The difference between the highest and lowest mean ELSI scores reduces slightly from 16.5 to 14.9 once standardised for asset value (see Table 7.5).

Table 7.5 Distribution of low-income population by value of assets (2000)

	Not Spec	\$10,000 or less	\$10,001-\$25,000	\$25,001-\$100,000	\$100,001-\$300,000	\$300,001- or more	Total	Mean ELSI score standardised for asset value*
Low income- benefits								
Population proportion	61.4%	25.5%	3.2%	6.9%	2.5%	0.5%	100.0%	
Mean ELSI score	25.6	31.3	35.1	35.6	36.5	41.9	28.4	29.9
Low income-market								
Population proportion	36.3%	33.7%	4.6%	9.7%	9.3%	6.5%	100.0%	
Mean ELSI score	32.6	40.7	43.5	37.3	41.4	42.5	37.8	36.9
Low income-NZS								
Population proportion	36.0%	30.7%	14.6%	12.6%	4.8%	1.2%	100.0%	
Mean ELSI score	43.9	44.1	45.2	47.5	47.9	50.7	44.9	44.8
Total low income								
Population proportion	46.5%	29.8%	6.0%	9.1%	5.6%	3.0%	100.0%	
Mean ELSI score	30.5	38.1	42.5	39.5	41.6	43.1	35.3	

* The standardisation procedure used here applies the asset distribution of the total low income population to each of the three low-income groups and thereby produces an average ELSI score standardised for asset value.

⁶⁹ These assets include: money deposited with banks e.g. savings, cheque accounts, term deposits; other investments, e.g. shares, unit trusts, bonus bonds, debentures, credit unions; life insurance policies, e.g. whole life endowment investment linked policies; money or investments in a family trust; money owed to respondent; residential property, e.g. holiday home, rented-out residential property, land etc.; investment in commercial property; business ownership or investment, e.g. in farming, forestry or any other business; any other assets, e.g. art, antiques, collectibles.

Number of owned assets

In the living standards survey, respondents were asked how many assets they owned with the exception of the family home. Out of the low-income groups, low-income beneficiaries were the most likely to have no assets and the least likely to have three or more assets. Between 12 and 16 percent of low-income NZS and the low-income market groups had three or more assets, compared with only 5 percent of the low-income benefit group.

The overall pattern shows that average living standard scores for all three groups steadily increase as the number of assets increases. Standardising the mean ELSI scores for number of assets substantially reduces the difference between the highest and lowest mean ELSI scores from 16.5 to 13.3 (see Table 7.6).

Table 7.6 Distribution of low-income population by number of owned assets (2000)

	Nil	One	Two	Three or more	Total	Mean ELSI scores standardised for number of assets*
Low income-benefits						
Population proportion	58.5%	28.5%	7.9%	5.2%	100.0%	
Mean ELSI score	25.4	29.3	37.2	43.8	28.4	30.5
Low income-market						
Population proportion	31.8%	32.4%	19.8%	16.1%	100.0%	
Mean ELSI score	31.5	40.0	39.3	43.6	37.8	36.9
Low income-NZS						
Population proportion	20.1%	45.2%	22.2%	12.4%	100.0%	
Mean ELSI score	40.4	44.7	46.8	49.6	44.9	43.8
Total low income						
Population proportion	40.4%	33.3%	15.4%	10.9%	100.0%	
Mean ELSI score	28.7	37.6	41.0	45.0	35.3	

* The standardisation procedure used here applies the asset distribution of the total low income population to each of the three low-income groups and thereby produces an average ELSI score standardised for asset number.

Education

Those in the low-income benefit population tend to have lower levels of educational qualification. In 2000, 32 percent had no formal qualification and a further 25 percent had only school level qualifications. Only 10 percent had bachelors degrees or higher qualifications. Amongst the low market income population, 15 percent had no formal qualifications while 41 percent had school level qualifications. Half (50 percent) of all low-income NZS people had no formal qualifications (reflecting the general distribution of those aged 65 years and over towards lower levels of formal education).

ELSI scores for the market income and NZS members of the low-income population, increase substantially for those who have some qualifications. For low-income beneficiaries, however, there is very little variation in scores between those with no qualifications and those with more substantial qualifications.

Table 7.7 indicates that standardising mean ELSI scores for educational qualifications only results in a slight reduction in mean scores for the two groups (from 16.5 to 14.8).

Table 7.7 Distribution of low-income population aged 18 years and over by highest educational qualification (2000)

	No formal quals	School qualification	Occupational certificates and diplomas	Bachelors degrees or higher quals	Total	Mean ELSI score standardised for educational qualification*
Low income-benefits						
Population proportion	32.3%	24.7%	33.0%	10.0%	100.0%	
Mean ELSI score	30.8	32.2	28.3	31.3	28.4	30.6
Low income-market						
Population proportion	14.6%	41.4%	33.2%	10.8%	100.0%	
Mean ELSI score	33.4	41.6	38.8	39.1	37.8	38.1
Low income-NZS						
Population proportion	50.2%	31.9%	16.6%	1.3%	100.0%	45.4
Mean ELSI score	43.9	46.1	45.7	47.5	44.9	
Total low income						
Population proportion	30.7%	32.8%	28.6%	7.9%	100.0%	
Mean ELSI score	37.1	40.3	35.6	36.1	35.3	

* The standardisation procedure used here applies the educational distribution of the total low-income population to each of the three low-income groups and thereby produces an average ELSI score standardised for education level.

■ Summary of relationship between living standards and the factors examined

Table 7.8 summarises the variation within the bottom third of the income distribution that is associated with different income sources. Low-income NZS recipients have the highest average standard of living within this group, low-income benefit recipients have the lowest, while the low market income group have average scores in the middle of the range between these two groups.

Overall results suggest that standardising average living standard scores for accommodation costs makes the highest contribution in terms of reducing the distance between the highest average living standard score (i.e. low-income NZS recipients) and the lowest living standard score (i.e. low-income benefit recipients).

The distance between the average living standard scores for the low-income benefit population and the low-income market population is reduced the most by standardising for the number of assets owned. The distance between the scores of the market income and NZS members of the low-income group is reduced the most by standardising for accommodation costs.

Broadly, it is possible to say that the living standard differences between the low-income benefit, market and NZS subgroups appear in part to be associated with differences between those groups in housing costs, assets and income, but not (to any great extent) differences in education or housing tenure position. Of note here is the fact that the greater impact on living standards is made by housing cost rather than housing tenure and points to the danger of simply inferring costs and living standard outcomes from tenure alone.

A further interesting result is that standardising for number of assets makes a larger difference than standardising for asset value.

At a purely speculative level, there are two possible reasons which can be proposed for this. Firstly, obtaining information about asset value can be very difficult in a survey, especially when it is only possible to ask a small number of questions. It is therefore possible that the information on asset value is understated and that it is easier for people to provide an account of what assets they have. Asset number is, however, highly associated with asset value and this to some extent

overcomes the limitations of asset value. Secondly, it is possible that the number of assets is quite a strong indicator of sophistication about financial matters and skills in money management. Therefore, it may be acting as a rough proxy for the money management skills and abilities of the respondent⁷⁰.

Table 7.8 Comparison of average living standards scores standardised for a variety of factors (2000)

Bottom third of the income distribution	Mean ELSI score	Mean ELSI score standardised for net equivalent income	Mean ELSI score standardised for housing cost	Mean ELSI score standardised for tenure type	Mean ELSI score standardised for number of assets	Mean ELSI score standardised for asset value \$	Mean ELSI score standardised for educational qualification
Low income - benefit	28.4	29.5	29.6	28.6	30.5	29.9	30.6
Low income - market	37.8	37.8	38.3	37.7	36.9	36.9	38.1
Low income - NZS	44.9	42.7	42.3	44.4	43.8	44.8	45.4
Difference between highest and lowest mean scores (i.e. benefit and NZS)	16.5	13.2	12.7	15.8	13.3	14.9	14.8
Difference between benefit and market	9.4	8.3	8.7	9.1	6.3	7.0	7.5
Difference between market and NZS	7.1	4.9	4.0	6.7	7.0	7.9	7.3

⁷⁰ This raises the question of how much of the living standards variation is accounted for by considering all these factors together.

An initial regression analysis showed that the factors that we have examined here other than income source (i.e. income, accommodation costs, tenure, education and asset position), taken together, account for about 16 percent of the living standards variation in the low income population. When income source (i.e. low income benefit, low income market, low income NZS) is added to the regression equation (using dichotomous dummy variables), the amount of living standards variation accounted for increases to 25 percent. This is a substantial increase in variation explained. This indicates that the factors examined only partly account for the living standards differences between the low income groups, and that income source continues to account for a substantial part of the variation in the low-income population. This may be due to the income source acting as a proxy for unmeasured variables that influence living standards (e.g. amount and quality of household utilities, skills and abilities in financial management, support from others, lifestyle, stability etc.). This may also be due to weaknesses in the measured variables (e.g. asset position may not have been well captured by the variables used to measure it).

■ Summary

This chapter has shown that while there can be substantial variation in living standards amongst those with low incomes, income itself only accounts for a part of this variation. Of the three low-income groups examined, the most at risk of low living standards appear to be those who receive income tested benefits. Low-income New Zealand Superannuitants appear to be more likely to have comfortable living standards while low-income groups receiving market income appear to be in the middle of these two groups, with higher living standards than the former and lower living standards than the latter.

Variations in living standard scores between these three low-income groups appear in part to be associated with differences in housing costs, asset position and income. Differences in housing tenure and education levels don't seem to be as strongly associated with living standard differences between them.

The identification of factors that underlie differences in living standards is of great relevance to social policy directed at reducing poverty, and will be an important focus of future living standards research. This research will be directed at not just ascertaining what factors play a role, but their relative importance and the ways in which they interact. This task will require collecting data on a wider range of variables than those used above. These variables might include information on:

- past experiences of economic misfortune;
- the effects of marital dissolution, relationship formation and re-formation;
- levels of debt;
- the extent to which there is support from other family members (which could raise living standards);
- the extent to which family responsibilities cause some income to be diverted to assisting people outside the household (and could lower living standards);
- the extent to which there is persistence of poverty;
- the extent to which there are resources (financial and other) which buffer against the effects of low income;
- health status differences and the impact of health care costs;

- the extent to which there is buffering provided by resources available in neighbourhoods, schools and the local community environment;
- effects of unavoidable costs such as childcare costs;
- differences in location that may give rise to variations in prices, unavoidable transport costs etc.

The analysis given in this chapter goes a small way towards examining some of the factors that may explain variation in living standards below a defined income threshold. The next phase of the living standards research programme will focus on improving our understanding of the multitude of factors that underlie this variation.



Concluding comments

This report has presented a picture of living standards for the New Zealand population that is without close precedent in the field of New Zealand living standards research. This has been made possible by the first use of the ELSI scale, a new tool that promises a substantial advance in our ability to measure living standards.

Key findings from this report show that:

- There is considerable variation in living standards across different groups.
 - o Higher average living standards are found amongst:
 - those aged 45 years and over (in particular, those aged 65 years and over);
 - Europeans;
 - those in economic family units without children (i.e. single person or couple only economic family units);
 - those who live in the Wellington region or in rural New Zealand;
 - those in legislative, administrative, managerial, professional or agricultural occupations;
 - those with self-employment income;
 - those in receipt of New Zealand Superannuation;
 - working-age people in receipt of market income;
 - those who own their homes (especially those who own as part of a family trust);
 - o Lower average living standards are found amongst:
 - children (especially those in sole-parent families receiving an income-tested benefit);
 - Māori and Pacific people;
 - those in clerical, service, sales, trade or elementary occupations;
 - those receiving income-tested benefits;
- There is a strong relationship between living standards and financial position (as indicated by variables such as income, assets and accommodation costs).
- Although the analysis has not been directed towards trying to explain living standard differences, the results indicate that differences are associated with a variety of factors that are interconnected in complex ways. Income is prominent amongst these factors but, of itself, may account for only part of the variation.

- Despite the strength of the relationship between living standards and financial position, there is still considerable variation in living standards among those in similar financial circumstances.
- The results provide compelling support for the widely held view that Māori have below-average living standards.
- The pattern of differences between Māori population sub-groups isn't entirely the same as those found for the population overall. A particular difference is that living standard scores for older Māori are no higher than they are for other Māori age groups, whereas for the population overall, living standards are higher for older people.
- Of all the major ethnic groups in New Zealand, the Pacific population has the lowest ELSI scores.
- Amongst Pacific people, lower living standards are pronounced at both ends of the life cycle, in childhood and old age.
- The ELSI average for families with dependent children is lower than for the population as a whole. The lower living standards of families with dependent children is primarily a result of the lower living standards of sole-parent families with dependent children who are in receipt of income-tested benefits. Sole-parent families account for approximately 29 percent of all families with dependent children. Of this group, 68 percent are in receipt of income-tested benefits.
- Children with scores at the lower ('very restricted' or 'restricted') end of the scale (who are predominantly children in sole-parent families) are much more likely than other children to experience constraints that may adversely affect their health, education and general development.
- There is substantial variation in living standards amongst those with low incomes. Of the three low income groups examined (i.e. low-income receiving NZS, low-income receiving income-tested benefits and low-income receiving market income), those most at risk of lower living standards appear to be those who receive income-tested benefits.

- Low-income New Zealand Superannuitants appear to be more likely to have comfortable living standards while low-income people receiving market income have living standards that (on average) fall between those of Superannuitants and income-tested beneficiaries. Variation between these three groups is associated with differences in housing costs, asset position and income, but these alone do not appear to wholly account for it. Differences in housing tenure and education levels don't seem to be as strongly associated with living standard differences between the three low-income groups.

Because the ELSI tool is new, with the present report being the first occasion of its use, it is of interest to compare the picture that emerges from its use with the conventional wisdom that has developed from many years of analysing other types of information and from anecdote, press stories and political debate.

Many of the findings accord with conventional wisdom. The ELSI scores imply that the majority of New Zealanders do indeed enjoy a satisfactory standard of living. No surprises are offered by the results showing the higher living standards of those with higher levels of education or higher status occupations (especially professional occupations); nor by the results showing the lower living standards of domestic purposes beneficiaries (together with those reliant on other types of income-tested benefits), or those of Māori or Pacific ethnicity (although in the case of the last mentioned group the size of the effect is greater than may have been anticipated, with Pacific people having an average living standard substantially below that of Māori).

However, while Māori and Pacific populations have lower overall living standards, there is a considerable degree of within-group variation in living standards within these populations.

ELSI scores that indicate that New Zealand Superannuitants enjoy a relatively favourable standard of living also reinforce the results of the 2001 study that focused on older people and used a living standard measure developed specifically for older people.

In contrast, other results of the present work indicate the need to question some elements of conventional wisdom. A striking example is the range of living standards found for people on lower incomes. This group shows a very wide range of living standards, despite

beneficiaries, people with low market incomes and Superannuitants having quite similar income levels.

Similarly, the variation in standard of living that is found within different age groups underscores the danger of using simple life-cycle models to account for variation in standard of living between those of different ages.

Some of the findings in this report have important implications for government social policy. It is not the purpose of this report to offer prescriptions, but it is useful to flag some of these implications as they provide an illustration of the relevance of this type of living standards research to social policy:

- The low living standards of beneficiary children (who are predominantly in sole-parent families) provide an argument for giving priority to policies that support positive outcomes for such children and that protect them against disadvantages that might compromise their development. The results reported suggest that policy initiatives will need to reflect a multiple perspective that has regard not just for direct income support, but also for income from secure employment, support for the parenting role, and support that underpins health and educational development for children regardless of the circumstances of their parents.
- The generally favourable living standards of older New Zealanders suggest that current support arrangements are meeting the needs of the majority of New Zealand Superannuitants. This does not reduce the need for policies to ensure the well-being of all Superannuitants. It is important to recognise that the generally favourable picture for older New Zealanders does not hold for older Māori or older Pacific people (who are numerically too few to have much effect on overall results). The results also point to the importance of low housing cost (whether this is achieved through home ownership or other means), and the prior accumulation of an asset base. Those who do not have these advantages in retirement fare rather less well.
- The results in the report vividly reinforce previous knowledge concerning the higher prevalence of disadvantage amongst Māori and Pacific people. The results underline the importance of a strong focus being maintained on finding effective ways of reducing these disparities.

A comprehensive understanding of what drives differences in living standards will require the contribution of a variety of inter-related factors to be disentangled. These include family composition and life-stage, financial circumstances, state of health, disabilities, socio-economic position, abilities, lifestyle, and so on. Drawing out the interdependency of such factors, their contribution to living standards, and the pathways through which they exert their effect will require the progressive creation of knowledge over time. The results presented in this report are an outcome of the Ministry of Social Development's continuing programme of research on living standards. Next in the programme is a major population survey that will collect, among other things, information on the sort of explanatory factors outlined above so that a start can be made on disentangling their contribution to living standards. While the present work has focused on what patterns of differences exist, the next stage will advance our knowledge of why these differences exist.

It is unlikely that any single study will answer all questions. The surveys on which the current report has been based comprise a very rich set of data that will support analyses of issues that have been touched upon only lightly in the current report. While the Ministry will itself be carrying out further analyses, it cannot claim to have the expertise or the resources to exhaust the potential of either the data collected so far or the data that will be collected in the future. The Ministry values collaboration in research and welcomes approaches from other agencies and bona fide researchers to use the data being collected through its living standards programme to address other related issues and to contribute to debate on living standards. For example, the data includes information on the health of older New Zealanders that could be analysed in relation to a range of other issues in the context of living standards.

While the results that are reported here are interesting in themselves, they also strengthen the knowledge base on which social policy rests. Appropriate measures of outcomes and their distribution within the population are essential to informed debate on issues such as poverty, inequality and inter-ethnic and inter-generational equity. The authors believe that the ELSI scale shows considerable promise as a measurement tool for this purpose. The ultimate proof of this lies in the utility of ELSI to other researchers and to future research.

These results of ELSI's first application will be immediately useful in assessing priorities and improving the effectiveness of social assistance policy. They represent a step up in our understanding of social assistance needs, the types of assistance that might have the greatest effect, and the ways in which such assistance might best be targeted.

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