

## DESIRED OUTCOMES

New Zealand is a prosperous society, reflecting the value of both paid and unpaid work. All people have access to adequate incomes and decent, affordable housing that meets their needs. With an adequate standard of living, people are well placed to participate fully in society and to exercise choice about how to live their life.

# Economic Standard of Living

## INTRODUCTION

Economic standard of living concerns the physical circumstances in which people live, the goods and services they are able to consume, and the economic resources they have access to. It is concerned with both the average level of resources in New Zealand as well as the distribution of those resources across New Zealand society.

Basic necessities such as adequate food, clothing and housing are fundamental to wellbeing. The 1972 Royal Commission on Social Security agreed that a useful standard for adequacy was a level of resources that allowed individuals not just to survive but also to participate. They defined participation as meaning "no-one is ... so poor that they cannot eat the sort of food that New Zealanders usually eat, wear the same sort of clothes, [and] take a moderate part in those activities which the ordinary New Zealander takes part in as a matter of course."<sup>48</sup>

The desired outcome statement points to the importance of not only everyone enjoying a decent standard of living, but also that our society be as prosperous as possible. Such prosperity gives people choice over how to live their lives.

## INDICATORS

Six indicators are used in this chapter, each providing information on different aspects of economic standards of living. They are: market income per person, income inequality, proportion of the population with low incomes, proportion of the population with low living standards, housing affordability, and household crowding.

The focus is largely on objective measures of economic living standards, though one indicator (population with low living standards) takes into account people's subjective perceptions about how well off they are. Together, the indicators provide information about overall trends in living standards, levels of hardship, and how equitably resources are distributed. All are relevant to the adequacy of people's incomes and their ability to participate in society and make choices about their lives.

The focus of the first three is on incomes, while the remaining three are more direct measures of the material living standards people can achieve. This recognises that the same level of income can produce different living standards, depending on factors such as people's coping skills, their health status and the assets they own.

Market income per person gives an indication of the average level of income and therefore the overall material quality of life available to New Zealanders. This is an internationally-recognised measure, allowing comparisons between New Zealand and other nations. An estimate of the economic value of unpaid work is also provided.

Income inequality is measured by comparing the incomes of the top 20 percent of households with the incomes of the bottom 20 percent. High levels of inequality are associated with lower levels of social cohesion and personal wellbeing, even when less well off people have adequate incomes to meet their basic needs.

The proportion of the population with low incomes also provides information about how equitably resources are distributed and how many people are likely to be on incomes that don't allow full participation in society.

The population with low living standards takes into account the extent that people do without things and don't engage in social activities because of the cost, as well as measuring whether people feel their incomes are satisfactory.

Housing affordability measures the proportion of the population spending more than 30 percent of their income on housing. Housing costs have a major impact on overall material living standards.

The final indicator measures the number of people living in overcrowded houses. Housing is a basic need, and this indicator provides a direct measure of the adequacy of housing people can afford.

# Market income per person

## DEFINITION

Real gross national disposable income (RGNDI) is a measure of the total volume of goods and services available to New Zealanders. Because it is a measure of volume it is not affected by inflation. This indicator is RGNDI per person.

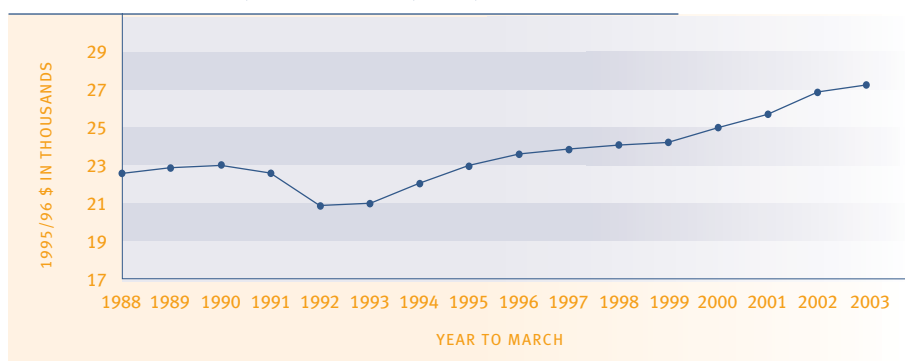
## RELEVANCE

Per capita national disposable income gives a measure of the average income available to New Zealanders. A nation with rising per capita RGNDI will have a greater capacity to deliver a better quality of life and standard of living to the population.

## CURRENT LEVEL AND TRENDS

In the year to March 2003, RGNDI per person was \$27,237 in constant 1995/1996 dollars compared with \$22,573 in 1988 (1995/1996 dollars). This represents an average growth rate over the period of 1.26 percent per year. RGNDI grew slowly between 1988 and 1990, before falling to below its 1988 level by 1992. Since 1992, there has been steady growth. This growth reflects the slow but steady increase in the ratio of capital to labour, productivity gains, as well as increasing labour force participation and declining unemployment.

Figure EC1.1 Real gross national disposable income per capita, 1988-2003



Source: Statistics New Zealand

## INTERNATIONAL COMPARISON

Comparisons with other OECD countries are available for a similar measure, real gross domestic product (GDP) per person. Using real GDP per person in current US dollars, adjusted for purchasing power parity, New Zealand ranked 21st out of 30 OECD countries in 2002.<sup>49</sup> By way of comparison, New Zealand was the 19th most prosperous country out of 26 countries in 1986, and the 10th most prosperous in 1970. Between 1986 and 2002, real GDP per person in New Zealand grew by 20 percent compared with an OECD average of 35 percent.

## ECONOMIC VALUE OF UNPAID WORK

RGNDI does not take into account the value of unpaid work such as looking after children, cooking meals at home, fixing the car, or voluntary work in the community. The estimated value of unpaid work in New Zealand in 1999 was \$39,637 million (1998/1999 dollars), equivalent to 39 percent of gross domestic product (GDP).<sup>50</sup> This equates to an annual salary of \$13,820 for the average unpaid household worker. Alternatively, the economic value of unpaid work is equivalent to \$9,944 per capita (1995/1996 dollars).

# Income inequality

## DEFINITION

Income inequality refers to the extent of disparity between high and low incomes. The measure used here is the ratio of the 80th percentile to the 20th percentile of the household disposable income distribution (ie the ratio of a high household income to a low household income). The higher this ratio, the greater the level of inequality.

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## RELEVANCE

The degree of income inequality is often regarded as an important aspect of the fairness of the society we live in. A high level of income inequality may also be detrimental to the level of social connectedness across society.

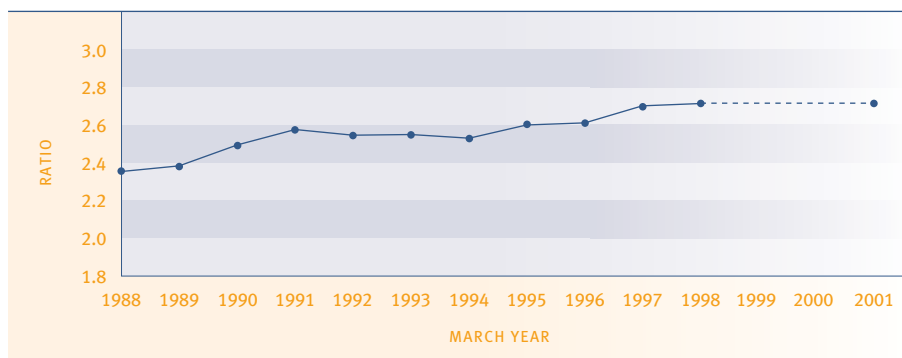
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## CURRENT LEVEL AND TRENDS

In 2001, the disposable income of a household at the 80th percentile was 2.7 times larger than the income of a household at the 20th percentile. In 1988, the ratio was 2.4. Income inequality rose between 1988 and 1991, then fell slightly, and has been rising since 1994. The rapid rise occurring between 1988 and 1991 was largely due to widespread economic reforms, combined with major changes to the social welfare system. The economic recession and large rise in unemployment exacerbated inequalities.

Most of the observed increase in inequality has been due to a relatively larger overall rise in the incomes of the top 20 percent of income earners, particularly between 1988 and 1990 and between 1994 and 1998. Incomes of those in the bottom 20 percent have remained approximately constant after adjusting for inflation over the whole period. The middle 60 percent experienced some slight decline between 1988 and 1994 followed by increases between 1994 and 1998.

Figure EC2.1 **Ratio of the 80th percentile of disposable household income to the 20th percentile of disposable household income, 1988-1998, 2001**



Source: Derived from Statistics New Zealand's Household Economic Survey by the Ministry of Social Development  
 Note: 1. This measure does not adjust for household size  
 2. The weightings of the records in the sample have been revised for all years since The Social Report 2001

## INTERNATIONAL COMPARISON

Comparisons with other OECD countries are available using a different measure, the Gini co-efficient.<sup>51</sup> During the mid-1990s, New Zealand performed worse than the OECD median and ranked 15th out of 21 countries. The best performers were the Scandinavian countries. Australia, the United Kingdom, the United States and Canada, along with New Zealand, were in the bottom half of the OECD for income inequality.<sup>52</sup>

# Population with low incomes

## DEFINITION

The proportion of the population in economic family units with equivalent income net of housing cost below three thresholds (low, medium, and high). The measures take account of incomes, housing costs and family size and are adjusted for inflation and taxes. The thresholds are 40 percent, 50 percent, and 60 percent of 1998 median equivalent net-of-housing-cost family incomes.

## RELEVANCE

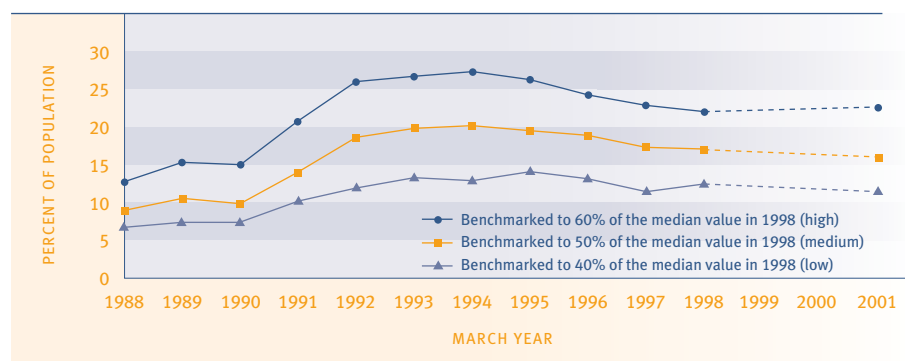
Insufficient economic resources limit people's ability to participate and belong to their community and wider society and otherwise restrict their quality of life. Furthermore, a consistent finding across the literature on outcomes for children is that low family income in childhood, if it is long-lasting, is associated with negative outcomes, such as lower educational attainment and poor health.

## CURRENT LEVEL AND TRENDS

In the year to June 2001, 22.6 percent of the population were living below the 60 percent threshold, a slight increase on the proportion in the previous survey year to March 1998 (22.0 percent). On all three measures (low, medium, and high), the proportion of the population with low incomes increased sharply in the early 1990s, reached a peak in the mid-1990s, and declined over the latter half of the decade. However, in 2001, the proportion of the population below these thresholds was still substantially higher than it had been in 1988.

The increase in the proportion of the population with low incomes through the early 1990s is attributable to high rates of unemployment and declines in the level of social assistance. The recent improvement in this measure may likewise reflect more robust economic (and income) growth, and the steady decline in unemployment.

Figure EC3.1 **Lines showing proportions of population with net-of-housing-cost incomes below thresholds, 1988-1998, 2001**



Source: Derived from Statistics New Zealand's Household Economic Survey, 1988-2001, by the Ministry of Social Development

## POPULATION GROUP DIFFERENCES

In 2001, 29.1 percent of dependent children were in economic family units below the 60 percent line (benchmarked to the 1998 median). This represents an increase from 27.5 percent in 1998 and is almost twice the proportion in 1988 (14.6 percent), but substantially below the peak of 36.4 percent in 1994. For people aged 15 years or over, females (21.8 percent) were a little more likely to be in low income households than males (19.5 percent) in 2001.

Economic families most likely to be living with low incomes are: families reliant on income-tested benefits, sole-parent families, families with at least one adult belonging to an ethnic group other than European, families in rented dwellings and families with dependent children. The situation improved for most of these family types between 1993 and 1998. However, for sole-parent families the proportion below the 60 percent benchmark line increased again between 1998 and 2001.

Table EC3.1

**Proportion of population with net-of-housing-cost incomes below the 60 percent line (benchmarked to 1998 median), 1988, 1993, 1998, 2001**

	1987-88	1992-93	1997-98	2000-01
<b>Total population</b>	12.7	26.7	22.0	22.6
Total dependent children	14.6	34.7	27.5	29.1
Children in sole-parent families	18.5	65.6	59.2	66.3
Children in two-parent families	13.8	27.5	18.5	19.7
Males (15 years & over)	11.9	23.3	19.6	19.5
Females (15 years & over)	12.2	24.9	20.8	21.8
Total economic families	14.0	28.0	23.2	23.2
<b>Economic families</b>				
With one dependent child	11.5	30.1	25.2	26.5
With two dependent children	11.7	32.9	23.5	26.0
With three or more dependent children	18.6	40.8	30.7	32.7
Sole-parent families	17.4	62.5	51.9	59.4
Two-parent families	12.4	25.1	17.0	17.5
<b>Economic families</b>				
With any Māori adult	14.0	41.0	31.2	32.0
With any Pacific adult	24.4	48.9	44.3	40.0
With any 'Other' ethnic group adult	23.6	42.8	53.7	35.6
With any European/Pākehā adult	12.6	23.3	18.5	18.7
<b>Economic families with main source of income</b>				
New Zealand Superannuation	7.0	8.4	9.9	6.5
Income-tested benefit	26.0	74.3	61.7	61.6
<b>Housing tenure (households with one family unit)</b>				
Rented	n.a.	43.3	37.2	33.5
Owned with mortgage	n.a.	24.3	15.3	17.1
Owned without mortgage	n.a.	4.9	3.7	5.6

Source: Derived from Statistics New Zealand Household Economic Survey, by Ministry of Social Development

## INTERNATIONAL COMPARISON

Based on a slightly different measure, 60 percent of median equivalent disposable household income in 1995, and not taking housing costs into account, 13.7 percent of New Zealand households were living below the low income threshold, compared with an OECD median for the mid 1990s of 14.3 percent. New Zealand ranked ninth out of 22 OECD countries.<sup>53</sup> This represents a higher proportion of households with a low (relative) income than the majority of European countries but a lower proportion of households compared with Canada, Australia, the United Kingdom and the United States.



# Population with low living standards

## DEFINITION

The proportion of the population with a ‘somewhat restricted’, ‘restricted’ and ‘very restricted’ standard of living: Levels 1-3 of the Economic Living Standard Index (ELSI).

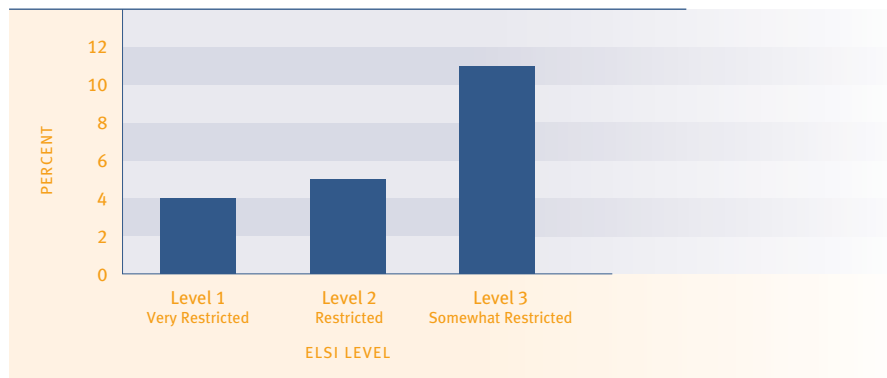
## RELEVANCE

ELSI is an indicator of how people are living in terms of their possessions, activities and how they get by financially. Having a low living standard limits a person’s ability to participate in the wider society, curtails quality of life, and can have negative long-term consequences across a wide range of social and economic outcomes.

## CURRENT LEVEL

In 2000, 4 percent of the total population had ‘very restricted’ living standards, 5 percent had ‘restricted’ living standards and a further 11 percent had ‘somewhat restricted’ living standards. In total, 20 percent of the population had living standards in the bottom three levels of the ELSI scale.

Figure EC4.1 **Proportion of the population with lower living standards, 2000**



Source: Krishnan et al (2002), p 40

## POPULATION GROUP DIFFERENCES

Groups with higher than average prevalence of lower living standards include sole-parent families (51 percent), families who rely on income-tested benefits (57 percent), families with dependent children (particularly larger families), Māori and Pacific people (39 percent and 42 percent, respectively), and those living in rented dwellings. Dependent children are more at risk of low living standards than the population average. The probability of having low living standards declines with age, except for a slight increase during peak child-rearing years.

Table EC4.1

**Proportion of population and economic families with lower living standards (ELSI Levels 1-3), 2000**

	Percent
<b>Total population</b>	20
Males	18
Females	21
Total economic families	18
<b>Age groups</b>	
Dependent children (under 18 years)	29
18-24 years	16
25-44 years	19
45-64 years	16
65 years and over	7
<b>Economic families</b>	
With one dependent child	25
With two dependent children	24
With three or more dependent children	35
Sole parent family	51
Two parent family	18
<b>Economic families</b>	
With any Māori members	39
With any Pacific members	42
With any European/Pākehā members	15
With any 'Other' ethnic group members	22
<b>Economic families with main source of income</b>	
New Zealand Superannuation	7
Income-tested benefits	57
Market income	14
<b>Housing tenure</b>	
Rented - Housing New Zealand	63
Rented - Private	33
Rented - Local Authority	30
Owned with mortgage	22
Owned without mortgage	8

Source: Krishnan et al (2002)

# Housing affordability

## DEFINITION

The proportion of households and the proportion of people within households spending more than 30 percent of their income on housing.

## RELEVANCE

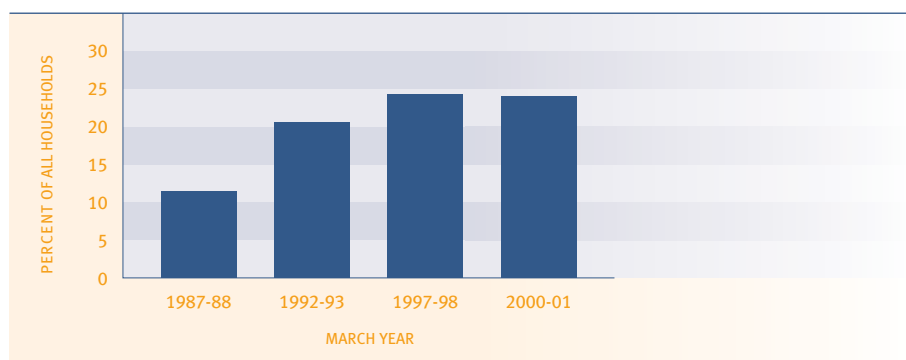
Affordable housing is an important factor in the wellbeing of individuals and families. High housing costs relative to income are often associated with severe financial difficulty, especially among low-income households, and can leave such households with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education.

## CURRENT LEVEL AND TRENDS

In 2001, 24 percent of households spent more than 30 percent of their income on housing costs.

Since the late 1980s, there has been a substantial increase in the proportion of households spending more than 30 percent of their income on housing. Between 1988 and 1993 the proportion rose from 11 percent to 20 percent of households, reaching just over 24 percent in 1998. This is partly due to changes in household composition, and immigration and rising average incomes increasing the demand for housing and pushing prices up.

Figure EC5.1 **Proportion of households with housing cost outgoings-to-income ratio greater than 30 percent, 1988, 1993, 1998, 2001**



Source: Statistics New Zealand Household Economic Survey, Ministry of Social Development

Note: The weightings of the records in the sample have been revised for all years since The Social Report 2001

High housing costs relative to household income are of greatest concern in respect of low-income households. Analysis of data on those households in the lowest 20 percent of the (equivalised) household income distribution shows a similar increasing trend over the 1988-2001 period but with significantly higher proportions of households spending more than 30 percent of income on housing.<sup>54</sup> In 2001, 42 percent of households in the lowest fifth of the household income distribution spent more than 30 percent of their income on housing. This has increased from 16 percent in 1988.

It is important to remember this indicator will include some people whose high housing outgoings or low incomes represent only a temporary state of affairs, as, for example, they choose to make high mortgage repayments, or are temporarily out of work or in full-time study.

## AGE AND SEX DIFFERENCES

In 2001, 35 percent of children under 18 years were in households with housing costs exceeding 30 percent of income, a three-fold increase on 1988.

For people aged 15 years or over, females (22 percent) were a little more likely than males (20 percent) to be in households spending more than 30 percent of their income on housing in 2001.

Table EC5.1 **Proportion of the population in households spending more than 30 percent of their income on housing, 1988, 1993, 1998, 2001**

	1987-88 %	1992-93 %	1997-98 %	2000-01 %
<b>Total population</b>	10.6	20.6	24.9	24.0
Males (15 and over)	10.3	18.8	21.0	20.1
Females (15 and over)	9.5	19.3	22.7	22.2
<b>Age groups</b>				
Under 18 years	11.9	27.1	37.1	34.7
18-24 years	12.4	24.6	26.1	29.0
25-44 years	14.7	26.3	31.1	28.2
45-64 years	5.0	12.2	13.8	15.8
65 years and over	3.2	4.0	7.1	7.2

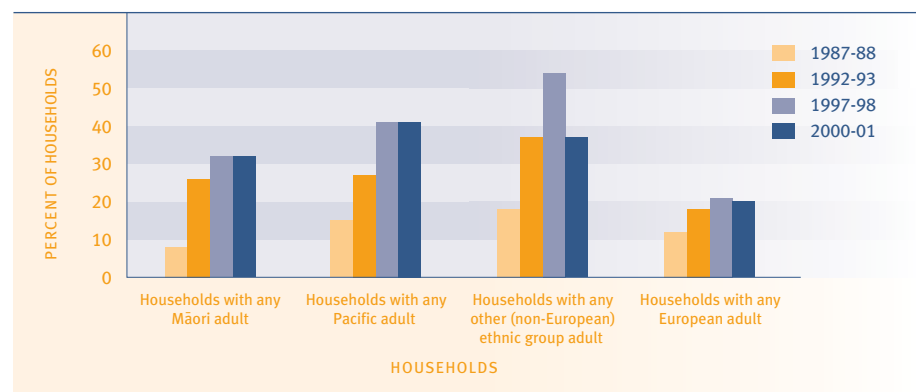
Source: Statistics New Zealand Household Economic Survey, Ministry of Social Development

Note: The weightings of the records in the sample have been revised for all years since The Social Report 2001

## ETHNIC DIFFERENCES

Housing costs in excess of 30 percent are much more common in households that include at least one non-European adult. For households with at least one Māori adult, the proportion increased from 8 percent in 1988 to 26 percent in 1993 and to 32 percent in 1998, remaining at that level in 2001. For those households containing at least one Pacific adult the increases have been greater, from 15 percent in 1988 to 43 percent in 1998 and 2001.

Figure EC5.2 **Proportion of households with housing cost outgoings-to-income ratio greater than 30 percent, by ethnic group 1988, 1993, 1998, 2001**



Source: Statistics New Zealand Household Economic Survey, Ministry of Social Development

Note: The weightings of the records in the sample have been revised for all years since The Social Report 2001

# Household crowding

## DEFINITION

The proportion of the population living in crowded housing (ie requiring one or more additional bedrooms, as defined by the Canadian Crowding Index).

## RELEVANCE

Housing space adequate to the needs and desires of a family is a core component of quality of life. The Canadian Crowding Index is a proxy measure to monitor incidence of 'crowding' in the population.

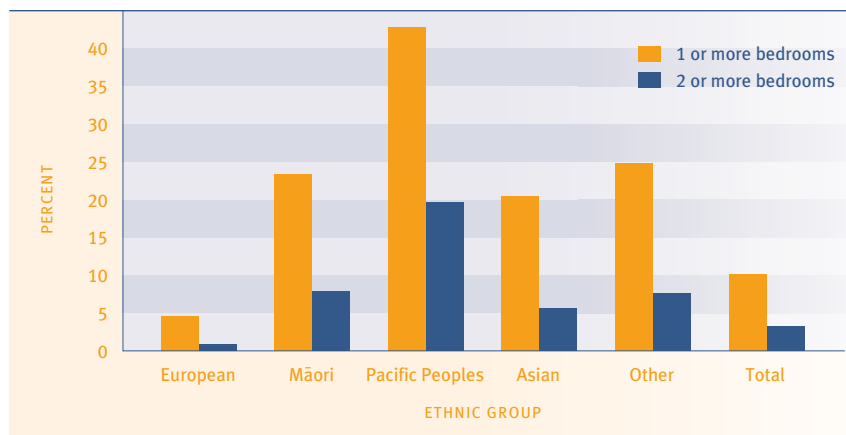
National and international studies indicate an association between the prevalence of certain infectious diseases and crowding<sup>55</sup> as well as between crowding and poor educational attainment. Crowding can also contribute to psychological stress for people in the households concerned.

## CURRENT LEVEL AND TRENDS

In 2001, 108,900 people, or 3.2 percent of the New Zealand resident population, lived in households requiring two or more additional bedrooms. A further 239,500 people (6.9 percent) required just one further bedroom. In total, 348,400 people (10.1 percent) lived in households requiring at least one more bedroom to accommodate household members adequately, based on the criteria in the Canadian Crowding Index (see Appendix Two).

In the five years to 2001, the number of people living in households requiring two or more bedrooms declined by around 6,000; there were 115,300 people (3.4 percent) in that situation in 1996.

Figure EC6.1 **Proportion of population living in households requiring additional bedrooms, by ethnic group, 2001**



Source: Statistics New Zealand (1998c)

## AGE AND SEX DIFFERENCES

Household crowding is more likely to be experienced by younger people than older people. In 2001, 17 percent of children under the age of 10 years lived in households requiring at least one more bedroom, compared to 15 percent of 10–14 year-olds. Among all adults aged 15 and over, 8 percent lived in crowded households but this ranged from 16 percent of 15–24 year-olds, to 9 percent of 25–44 year-olds, 5 percent of 45–64 year-olds, and just 2 percent of those aged 65 and over.

In 1996, just over 50,000 children under 18 years (5.3 percent of all children under 18) were living in households which required two or more additional bedrooms.<sup>56</sup>

In 2001, 42,900 dependent children (under 18 and not employed full-time) were in this situation, accounting for 4.8 percent of all dependent children.

There is almost no sex difference in the likelihood of living in crowded households, except at ages 25-44, where females are slightly more likely than males to live in households requiring at least one extra bedroom (10 percent, compared to 9 percent).

## ETHNIC DIFFERENCES

Pacific people are far more likely to be living in crowded households than other ethnic groups. In 2001, a total of 43 percent of Pacific people lived in households requiring extra bedrooms (20 percent requiring two or more, 23 percent just one more). Other ethnic groups were the next most likely, with 25 percent requiring at least one extra bedroom, followed by Māori (23 percent) and Asians (20 percent). Partly reflecting their older age profile, only 5 percent of European New Zealanders were living in houses that met the definition of crowding used here.

The largest group of those living in households requiring at least one extra bedroom were those who identified as European (38 percent), followed by Māori (34 percent), Pacific people (28 percent), Asian (14 percent) and Other ethnic groups (just 2 percent).<sup>57</sup> However, of those living in more severe crowding situations (households requiring two or more bedrooms), Pacific people and Māori made up the largest groups (41 percent and 38 percent, respectively).

Cultural attitudes and economic conditions are two primary factors which account for the extreme variation in crowding levels between ethnic groups. The variance in population age structures is also a factor: both Māori and Pacific peoples ethnic groups have younger age structures than the European population.

## REGIONAL DIFFERENCES

There is considerable regional variation in household crowding. Whether measured by population or household, Manukau City has by far the worst level of household crowding (24 percent of people, 13 percent of households required one or more bedrooms in 2001). The next worst levels were in Opotiki District and Porirua City, where almost one in five people, and one in 10 households required at least one more bedroom. Other local authority areas with relatively high levels of crowding were Auckland City and the Far North, Wairoa and Kawerau Districts. All of the South Island local authorities had lower than average levels of household crowding.

## SOCIO-ECONOMIC DIFFERENCES

Unemployed people are more likely to be living in crowded households than those with full-time jobs (20 percent and 6 percent, respectively). Other groups with crowding levels above the average adult level of 8 percent include those with no qualifications (10 percent) and those who receive income support (16 percent).<sup>58</sup>

There is a clear correlation between levels of income and levels of crowding: in 2001, 6 percent of households in the bottom quartile of equivalised household income required one or more bedrooms, compared with 2 percent of those in the top income quartile.

Households in rental accommodation were more likely to be crowded (11 percent) than those in dwellings owned with a mortgage (4 percent) or mortgage-free (2 percent).