

Understanding resilient households

Resilience is the ability of an eco-system to either absorb or bounce back from a disruption.

Today we often hear it in community and environmental contexts such as the response to natural disasters and climate change. Resilience in these contexts is well explored and this report does not seek to add to the wealth of material available in these areas. This report considers resilience within households, as a part of the broader conversation about the role of public policy, in improving the wellbeing of New Zealanders.

In particular, we focus on how well households are able to maintain or recover their levels of wellbeing in the event of a disruption. We define household more specifically than people who live together and share facilities. Our focus is on what is sometimes called an “income-sharing unit”, or people who have shared resources and a common standard of living.

Wellbeing: a life that Kiwis value

In New Zealand, Kiwi values lie at the heart of our perceptions of wellbeing. We recognise that values such as fairness, connection with our natural surroundings, whānau and community are part of what makes New Zealand one of the best places in the world to live. As a country and as individuals we value – and pride ourselves on – more than just income.

Internationally, efforts have been made to broaden how society’s wellbeing is measured beyond the traditional measure of income growth. It is widely recognised that access to clean water, a quality education, meaningful work, safe and stable housing, public safety and a secure retirement are all measures of wellbeing that are just as important as income. And economic growth alone is not always enough to ensure them.

The Global Financial Crisis (GFC) furthered this movement away from a narrow focus on income as an objective of public policy. In part, because it revealed how fragile incomes and growth were and how susceptible the world’s economies are to shocks. Furthermore, income did not give a reliable indication of how well individuals, households and national economies were able to weather major shifts in the system.¹

Resilience: the security of wellbeing

If wellbeing is our quality of life, resilience is how secure that quality of life is.

Unexpected disruptions are a fact of life. Looking back, some of New Zealand’s biggest shocks in the last decade have come from very different quarters: the Christchurch earthquakes and the GFC. Looking ahead, trends towards a more protectionist global trading system, the changing nature of our relationship with Asia (the fastest growing economic region), the impact of technology and greater automation on jobs, and the threat of further economic turmoil are all global factors which could result in big changes for us.

In this environment, resilience is our ability to maintain or recover the wellbeing that New Zealand households value in the face of disruption. It is also, given the inevitability of shocks, how well we can react positively to changing circumstances.

The evidence actually suggests that New Zealanders put a lot of emphasis on resilience. The New Zealand Treasury’s survey into what aspects of wellbeing Kiwis value showed that resilience was the second most important quality for individuals, behind good health.²

Household

People residing together, often – but not always – as a family unit, who have shared resources and an inter-dependent standard of living



Resilience

The ability of New Zealand households to absorb, bounce back from, or adapt to disruption without compromising their long term wellbeing



Spotlight Balanced measures of wellbeing

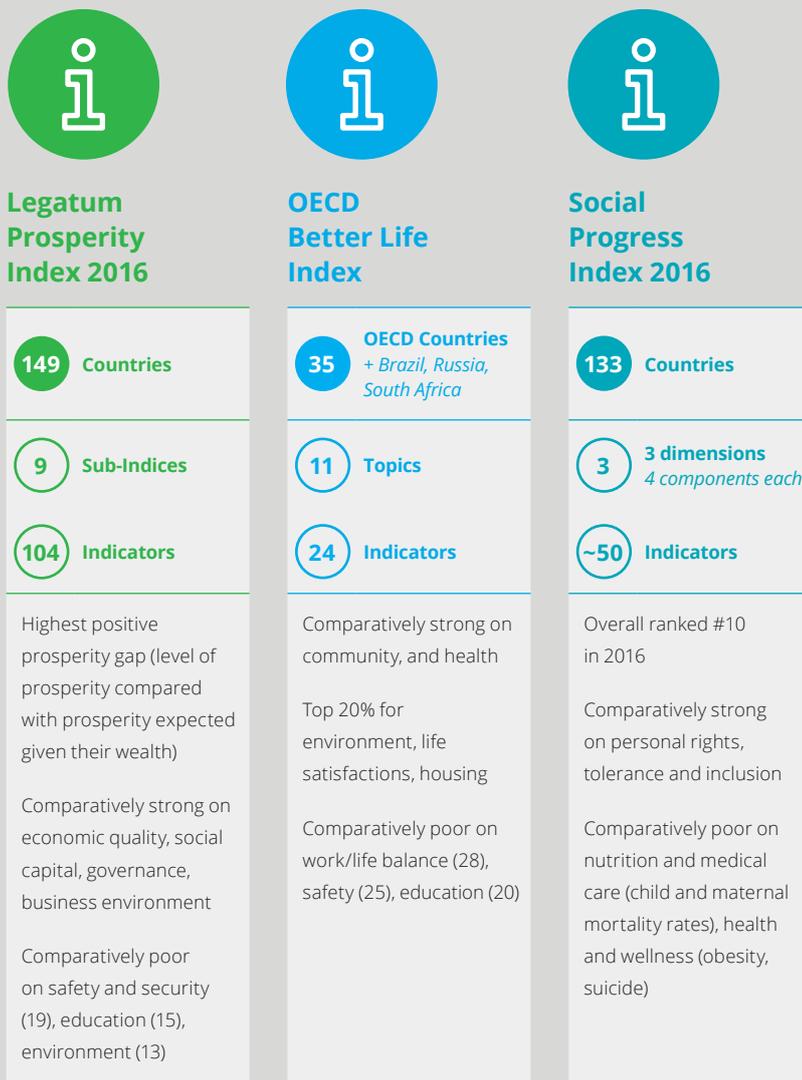
Generally speaking New Zealand appears near the top of international measures of economic and social wellbeing. In fact, including social measures often improves our comparative position. This effect is described as the “prosperity gap” by the Legatum Institute, which found that New Zealand had the biggest difference between its performance on its Prosperity Index and what might be expected based solely on income per capita.³

Figure 1 gives an overview of three prominent comparative wellbeing frameworks, and how New Zealand performs on them.

The frameworks are not directly comparable but they do tell an interesting story. In particular, New Zealand performs comparatively well in measures of social cohesion and connectedness, governance and institutions, and the business environment.

But the picture isn’t all rosy. New Zealand has low productivity and long working hours. For a country which places high stock in fairness, structural inequalities including poverty, lower educational attainment, poor health outcomes and social issues such as domestic violence and substance misuse are comparatively high here. These issues are disproportionately felt by segments of the population and substantially impact wellbeing and households’ abilities to cope with additional disruption.

Figure 1: New Zealand’s performance in three wellbeing frameworks



Balanced measures in New Zealand

The Living Standards Framework is the Treasury’s tool for assessing the impact of policy on five dimensions of wellbeing: sustainability, equity, social cohesion, risk management and economic growth. The tool is essentially a resilience-building exercise, producing recommendations on how best to face present and future challenges.

A balanced view of wellbeing inherently resonates with New Zealanders

Balanced decision-making tools have also been developed to reflect different cultural views of wellbeing. For example, the Mauri Model applies a Māori worldview to impact assessment by measuring mauri, or life force, across four dimensions: environmental wellbeing (taiao mauri), cultural wellbeing (hapu mauri), social wellbeing (community mauri) and economic wellbeing (whānau mauri).⁴

New Zealand is also committed to the UN Sustainable Development Goals, a set of global goals across poverty, inequality, education, gender, climate change and more.

Our uncertain future

Characteristics of New Zealand

Our social, environmental and economic make-up creates some vulnerabilities...



Our natural environment

Our land provides both a sense of connection and strength while also a source of shocks like earthquakes



A small, open economy

Makes us particularly susceptible to disruption from global trade and overseas economies



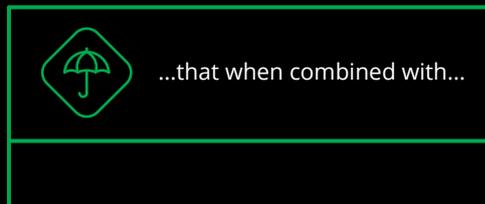
Lack of economic diversification

A downturn in a key sector can have a big impact across the economy



Macro-economic vulnerability

Our low savings rate, persistent current account deficit and high external debt makes us vulnerable to sudden shifts in the international financial system



Future trends



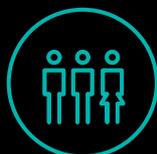
A transforming global economy

Centres of economic power are shifting while global institutions are changing



The gig economy and automation

Employment is changing with new opportunities for some but challenges for others



Demographic challenges

An ageing population and migration will change the make-up of our society



Climate change

The environment is changing and our innovation and response will also have an impact



...make for an uncertain future

National and systemic events

Ultimately, the adequacy of our sources of resilience will depend on the nature of the shock that we face.

On page 10, we highlight some of the unique characteristics of New Zealand and some of the global trends which may shape our future. This gives us some pointers to the types of systemic shocks we might expect. Anticipating and assessing these risks will shape our decisions on where we should invest for the future.⁵

Figure 2 shows a risk assessment, as viewed by officials from the Department of the Prime Minister and Cabinet (DPMC), of New Zealand’s most likely system-level shocks mapped according to probability and perceived impact.*

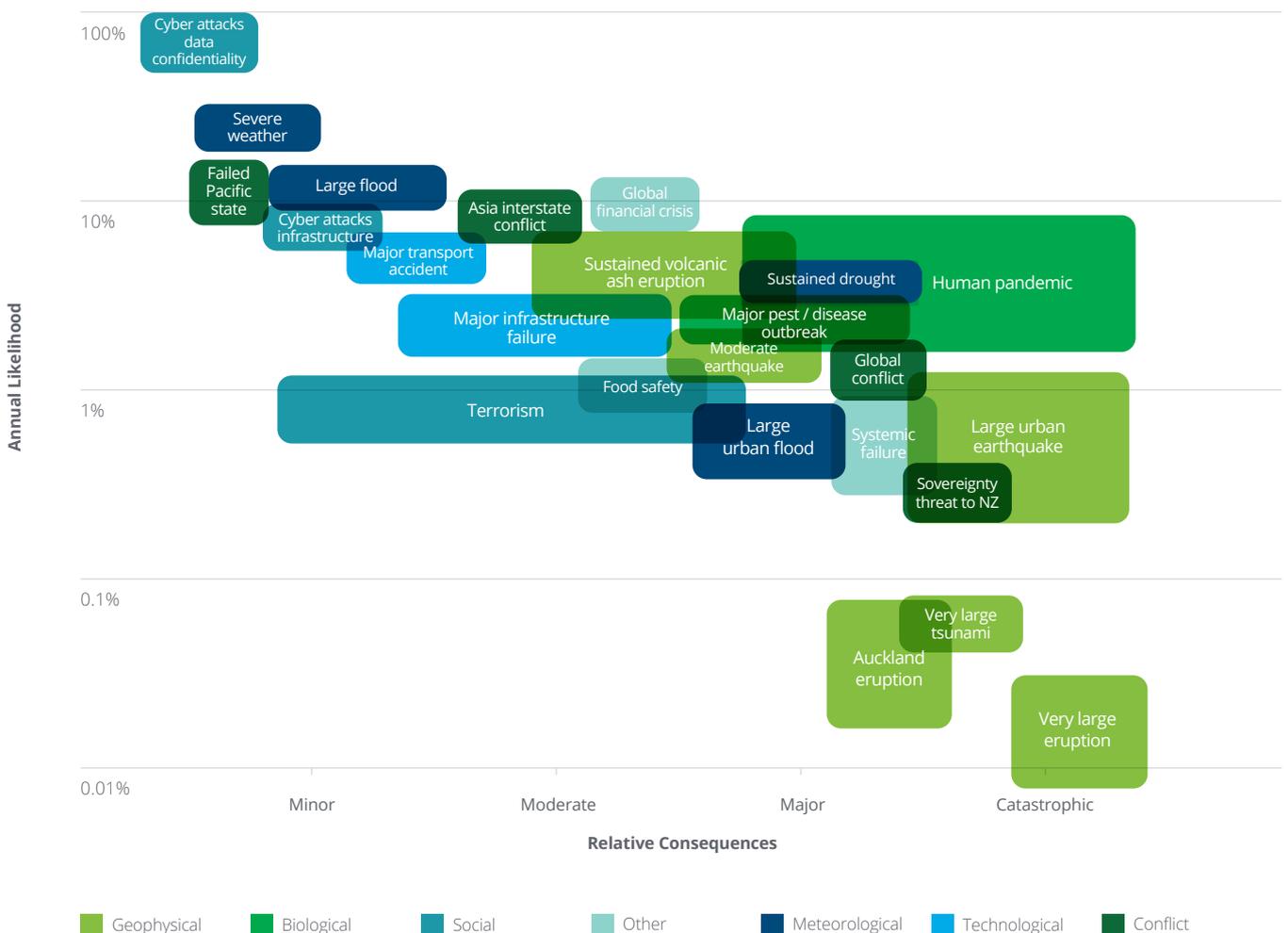
All shocks are household shocks

Given our recent history, it is natural for these sort of large, systemic events to be at the forefront of our minds when considering resilience. However, if our focus is on enhancing the wellbeing of New Zealanders, we should in fact be concerned with shocks of any scale that threaten that wellbeing.

In any given year, New Zealanders will suffer economic loss, health problems, or adverse changes in the lives of those closest to them. Findings from Statistics New Zealand’s 2014 General Social Survey found that almost 70% of all New Zealanders had experienced a major change in the previous 12 months, both positive and negative.

From a wellbeing perspective, these events can have as great an impact as any national-level or systemic shocks.

Figure 2: National Risk Matrix; DPMC⁶



*The vertical axis is logarithmic, so that each measured point increases by a factor of 10. The difference between a once a year event and once a decade event is depicted as the same as that between a once a century and once a millennium event.

Resilience for uncertainty

Even if we are able to predict certain shocks with some accuracy, it is another thing to predict their impact. One shock may set off others, and it may be these subsequent disruptions that prove to have the greater impact for some parties. Social systems are complex, which means they produce unpredictable responses to any shock.⁷

While risk assessment and responsiveness are clearly an important aspect of resilience, a particular challenge for households is how to prepare for unexpected disruptions.

This distinction between risk and uncertainty is an argument for assessing households' general resilience, rather than their resilience against the top five or ten most likely shocks.

In risk situations we can assign – however imperfectly – probability based on historical evidence. Radical uncertainty holds where we simply do not have the information to even assign odds to some risk in the first place.

Resilience can therefore be understood as “a protective strategy against unknown or highly uncertain hazards”.⁸ A useful analogy might be that of an immune system, which is useful precisely because it boosts our resilience against whatever comes.

Social systems are complex, which means they produce unpredictable responses to any shock



The government has a role to play

Resilience is a characteristic and not in itself a good or bad thing. It is valuable when it contributes to future and sustained wellbeing.

We believe there are strong arguments for government to take an active role in increasing the resilience of New Zealand households.

Resilience is essentially a long-term view of wellbeing. The State has a present and future role in creating the infrastructure, policies and environment for New Zealand that is conducive for business, society and households to build and maintain their own resilience and wellbeing.

Systemic change is a present and growing prospect. Globalisation and economic and digital integration are going to increase the likelihood and impact for change – good and bad.

Households experience frequent disruptions which affect their wellbeing.

Resilience is about both risk and uncertainty. While households have the best information about their own situation and their ability to manage change, there are good arguments for government to play a role.

First, people tend to have an optimism bias when it comes to future plans.⁹ This means that we do not fully account for future risks and therefore overestimate the probability that things will work out well for us. This may be due to a lack of critical information, or because people generally don't act entirely rationally.¹⁰

Second, people do not place equal weight on the possibility of gains and losses. This is known as loss aversion. People tend to value avoiding a fall in their position more than they value an equivalent increase.¹¹ This suggests that from a wellbeing perspective, greater attention to building resilience against losses that might entail hardship is a worthwhile public policy objective.

The fact that individuals do not always adequately plan for future contingencies already underpins government spending on ACC and NZ Super, for example. The lack of information is amplified when considering systemic shocks which will affect many households. There is great uncertainty both about what shocks – or combinations of shocks – to expect, and how the impact will unravel through complex social systems.