The Dynamics of Debt for Low Income Families

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A. Executive Summary

> I just like the simple things……As long as I have a roof over my head and food to eat, I don't care. That is all I want. I don't want to go out and beg for food. I don't want to have to, as we are with the rent, being behind. Have to sit and wait and think when are they going to kick us out?

Commissioned by the New Zealand Council of Christian Social Services (NZCCSS), this report examines the impacts of debt on low income New Zealanders, within the context of the international and New Zealand literature on debt and poverty. It examines these dynamics through the use of eight case studies which highlight the pathways into debt for low income people, the impact of debt, and how these families cope with the burden of debt.

The report reveals the dynamic interaction of structural, situational and personal factors which lead into debt. Some of the key factors identified include:

- Lack of income, through lack of employment and difficulties obtaining full social welfare entitlement;
- The organisation of the credit market and low-income people's exclusion from mainstream or first tier financial services;
- The persistent pursuit of debt by government departments;
- The unequal distribution of debt which impacts more severely on Maori, Pacific Peoples, women and families with children;
- The high cost of children;
- The high cost of private rental accommodation.

The disastrous impacts of debt and poverty dynamics on families in this study indicate that the loss of human potential is too great not to act. Debt has a significant negative impact on individuals, families and New Zealand society. The research makes a number of recommendations to address the issues raised in this report. We believe these will provide key effective interventions both to help people out of unsustainable debt, once they are in it and to prevent them going into unsustainable debt, in the first place.

B. Introduction

The lives of thousands of New Zealanders are currently being seriously undermined by poverty and associated issues of debt. The many people presenting to crisis centres, food banks, budgeting agencies and other social services, are frequently naming “unmanageable debt” as a major issue in their lives. Very little is known however about the nature and dynamics of debt for low-income groups in Aotearoa/New Zealand as the research that does exist on personal debt in this country tends to deal in aggregates, focusing on the general population and mainstream credit institutions. This obscures the situations and experiences of many families in Aotearoa/New Zealand.

The New Zealand Council of Christian Social Services established the Poverty Indicator Project (PIP) (in late 2000) in conjunction with seven member social services that run foodbanks. This is an ongoing project whose purpose is to monitor the situations of those who use these foodbanks with a view to identifying key factors that contribute to hardship for these families.

One of the key factors contributing to foodbank usage among low-income groups is *debt*. Recent figures show that at six out of the seven PIP foodbanks more than 50% of applicants have debt and at four foodbanks this proportion stood at 70% (New Zealand Council of Christian Social Services, 2002). A significant proportion of this debt is to government departments such as Work and Income New Zealand or the Inland Revenue Department. There is also significant debt to utilities such as power or telecommunication suppliers as well as housing related debt. NZCCSS members report that the costs of servicing or not servicing debts are high for families – there is little disposable income left over for food and other necessities. Barriers to participation and social inclusion are often formidable and stress-related conditions all take their toll on health and wellbeing. Given that over half of those coming to these foodbanks are households with children (under 18 years of age), undergoing vital years of development, further exploration of this situation takes on even greater urgency.

1. The Overall Structure of the Research

This research takes a closer look at how low income families are impacted by debt. It places the increasing debt facing low income people in the context of globalisation, economic restructuring and changes to social service delivery. Within this context it looks at *Pathways into Debt*; these pathways consist of a complex interplay of structural, situational and personal factors. Structural factors include the ongoing cumulative effect of being on a low income, and being faced with high costs such as housing, transport and child care. Situational factors take account of the disruption that is caused to people's lives by unexpected events that can increase costs or decrease incomes, such as death, loss of a job or a change in family structure. Personal factors can contribute to the causes of debt. Similarly, they can mediate its impact. These include factors such as support structures, health, knowledge of credit choices and addictive behaviours.

1.1 The Literature Review

The first section of the report draws together information concerning debt and poverty dynamics internationally and in Aotearoa/New Zealand. The structural, situational and personal factors are outlined in the literature review, which also briefly examines the level and nature of debt people are in, as well as examining the role of the credit market in trapping people in debt.

1.2 What the Case Studies Tell Us

The eight case studies are analysed in the second section of the report for what they tell us about pathways into debt and its impact. This section is also structured around identification of structural, situational and personal factors. The case studies highlight many of the issues raised in the earlier section. In particular they highlight issues around access to credit, access to full benefit entitlement and the cost of children. These studies emphasise the impact of debt on: individual wellbeing, families and relationships, physical and social deprivation and child development.

The participants were also asked about their financial circumstances. In particular, income, expenditure and debt were discussed. Any differences from what the relevant agencies consider the participants should have been receiving reflect the considerable difficulties and complexities faced by all parties - beneficiaries and relevant staff - in accurately clarifying both entitlements and actual amounts received.

Data setting out detailed individual financial circumstances is not included in this report because of the substantial difficulties in securing precise and detailed information. Such information would undoubtedly have been helpful in detailing the precise extent and nature of family indebtedness. However, its absence does not detract from the profound effect of debt on the lives and circumstances of the families interviewed and of the wider population which they represent.

Financial data included in the report conveys accurately the information provided by the participants during the interviews.

1.3 The Stories

The stories of the eight families who were interviewed for this project have been placed throughout the Report, both in the first section which reviews the literature and in the second section which analyses the interviews and draws out the key implications and themes. These stories provide a reminder of why this issue is of such importance, giving testimony to the struggle many indebted low income people face in New Zealand. The stories are designed to provide a human dimension to the demands of debt and its impact on day to day life. Their location is not intended to be located to the arguments being made at the point in the text where they are located. In order to protect the identity and anonymity of participants, names and other key identifying details have been altered.

1.4 Background to Case Study Selection

Eight case studies were conducted for this research. Participants were chosen to ensure that the major groups who have been identified in past research as suffering disproportionately from low income and debt were represented. In particular this meant ensuring that the case studies represented the experiences of Maori, Pacific People and families with children.

Key criteria for selection were:

- That participants were on low incomes
- That participating families had children
- That at least two families were headed by people in sole parenting roles

- That wages and social assistance as main source of income be roughly equally represented in participating families
- That participants were located in provincial towns as well as main centres.

Families were contacted and invited to participate through community centres or social service agencies running foodbanks, crisis services and advocacy services[1] - invitation to participate also being partially determined by the emerging composition of interviewees. Interestingly all of those who chose to be interviewed were women, even though half of them had partners. This may reflect the fact that it was the woman who in all cases were seeking assistance from agencies on behalf of their families and also that the woman was taking primary responsibility for managing finances and paying the debts .

At the stage of initial invitation by agency worker, prospective participants were given the background information sheet (Appendix A) and consent form (Appendix B) to read. On agreeing to participate, they were contacted directly by the interviewers to arrange a time and place, at their convenience to conduct the interview.

[1] Every effort was made to limit any negative effects of power-imbalances between social service agency workers and "clients", such as prospective interviewees feeling obliged to participate in the study. To mitigate the effects of this, social agency workers were requested to only approach those they thought would really want to participate.

Hine's Story

Hine is a young, Maori woman, with three pre-school children. She works full time, earning under $400 net for a 40 hour week. She also receives disability allowances for her two young prematurely-born twins who are in and out of hospital with various complications. Hine pays market rents for her privately rented house.

Despite her difficult financial circumstances, Hine endeavours to save $20.00 a week for her children. She is able to work full time only with the assistance of her sisters, who look after her children at no financial cost. For some time, Hine has been more or less able to just keep "financially afloat", by either borrowing from family or at various times pawning a household item to pay for essentials such as nappies or milk. This changed when her twins were admitted to a hospital that was located many miles from where she lived. Having no transport and needing to visit them in the evening after work, she borrowed an unwarranted and unregistered car from a friend in similar financial circumstances to herself. Unfortunately while parked, the car incurred traffic tickets to the sum of $400 and Hine was suddenly in debt. Around this time, she also had to forfeit a week's pay in order to spend time with her seriously ill babies. This put her in debt with her family.

Hine decided to buy a car on hire purchase so that she could visit her twins more easily. The car cost $6,000.00 and repayments came to $98.00 a week. She also did some careful negotiating with the Department of Courts so that she could re-pay the traffic fine at $10.00 a week instead of the $30.00 weekly repayment rate originally set by the Department. However, Hine soon found that she was having difficulty meeting the car repayments. For a few weeks she juggled food, electricity and other basic living costs in an attempt to keep up with these, beginning to fall slightly behind.

Around this time, her younger cousin found a job in Auckland and came to live with her. Shortly after this, Hine's cousin was killed while driving her car one night. The car was "written off" and as the insurance did not cover him as a driver, she was now liable for the total amount, with full payment due immediately.

At the time of the interview she was heavily indebted and attempting to negotiate with creditors. Among these was the car sales business. Wanting to recover the money for the "written off" vehicle as quickly as possible, these creditors were now demanding that Hine make weekly repayments of $140.00. Potentially 32% of Hine's weekly income would be taken up in the repayment of a debt for an item that no longer existed. Given this scenario, the outlook for this family's well-being was rather bleak.

Hine is finding that her low (and sometimes interrupted) income, combined with the high debt repayment for the car is wearing her down.

C. From the Literature

The literature reviewed here draws together information concerning debt and poverty dynamics internationally and in Aotearoa/New Zealand. The review begins by briefly placing the issues of growing income inequalities and increasing debt burdens on low-income communities within an international context.

We then move on to discuss the causes of the increasing debt facing New Zealanders. This includes structural and personal causes of debt, including a brief examination of the levels of debt facing New Zealanders. Secondly the impacts of debt on individuals, families and society are highlighted. As part of this examination of the impacts of debt, the strategies that people use to manage and otherwise cope with debt are examined.

1. Economic and Social Change and Growing Debt

Credit over commitment is a growing social problem within wealthier, industrialised nations (Manning, 2000; Ryan, 1992). This appears to coincide with two major trends. The first of these has been the deregulation of financial markets (including credit markets) and the associated expansion of personal credit use. The second trend has been a decline in living standards for many in recent decades, in part facilitated by an increase in wage inequalities and the associated de-regulation of labour markets (Navarro, 1998). These changes have had their impact in New Zealand as elsewhere around the world. In New Zealand, and other OECD countries generally, the availability and use of credit grew steadily over much of the 20th Century, but in the 1980s the rate of growth accelerated. “Financial institutions found they could fund new lending in a less constrained way than was previously the case” (Thorp & Ung, 2001, p.20), thus enabling households to increase their borrowing substantially in relation to income. The Reserve Bank of New Zealand estimate that during the 1990s alone household borrowing in New Zealand increased by $45 billion dollars, from 57% of disposable income in 1990 to 110% in 2000 (Brash, 2002).

Income inequalities in New Zealand have continued to rise over the past two decades, tapering off slightly in recent years. As in other OECD countries, these changes have been accompanied by the implementation of policies which have meant more people working in part-time, casualised employment and decreased levels of welfare assistance during periods of unemployment or ill health (Boston, 1999; Kelsey, 1997). In particular, changes to housing and income support policies throughout the 1990s meant that more New Zealanders than previously struggled to meet housing and other basic living costs (Waldegrave 2000; Cheyne et al., 2000).

Decreased levels of welfare assistance are associated with increased levels of poverty for particular population sectors in New Zealand (Howden-Chapman, 2000, September 203). Despite some recovery in household incomes from their 1992-94 low, the gap between low-income households and high-income households has widened as this recovery has occurred (Mowbray, 2001; Ministry of Social Policy, 2001).

The over-representation of particular populations groups in New Zealand poverty statistics is readily apparent. Maori, Pacific Peoples, women, people with disabilities, sole parent families and children are significantly over-represented in the poverty statistics. These are the same groups who are forced to request budgeting and food parcel assistance from New Zealand social services. *"Debt"* and *"not enough income"* are frequently cited as key reasons for requesting help (New Zealand Council of Christian Social Services, 2002; New Zealand Federation of Family Budgeting Services, 2002). Family structure is also an important influence in determining who lives in poverty – proportionately, the number of households below the poverty line steadily increases as the number of children per family rises (Ministry of Social Policy, 2001).

The issue of debt for low-income groups in New Zealand is not new. A 1995 survey undertaken by NZCCSS of 189 households attending 10 church-based budget advisory services throughout the country found that 57% of respondents were repaying debt.[2] Forty one percent were re-paying two debts and 24% were repaying three debts per week. The most common debts were hire purchase, payments of department store credit cards and bill arrears. Seventy one percent were of the opinion that access to sufficient income would improve their situation. Structural barriers to this were evident in survey results. Access to (well enough) paid employment, education, affordable housing and health care, transport and affordable childcare were all cited as enabling clients to improve their situation, repay their debts and move out of the poverty cycle (Young, 1995).

[2] This excludes mortgage payments.

2. Getting into Debt

2.1 Poverty and Debt: Structural and Situational Factors

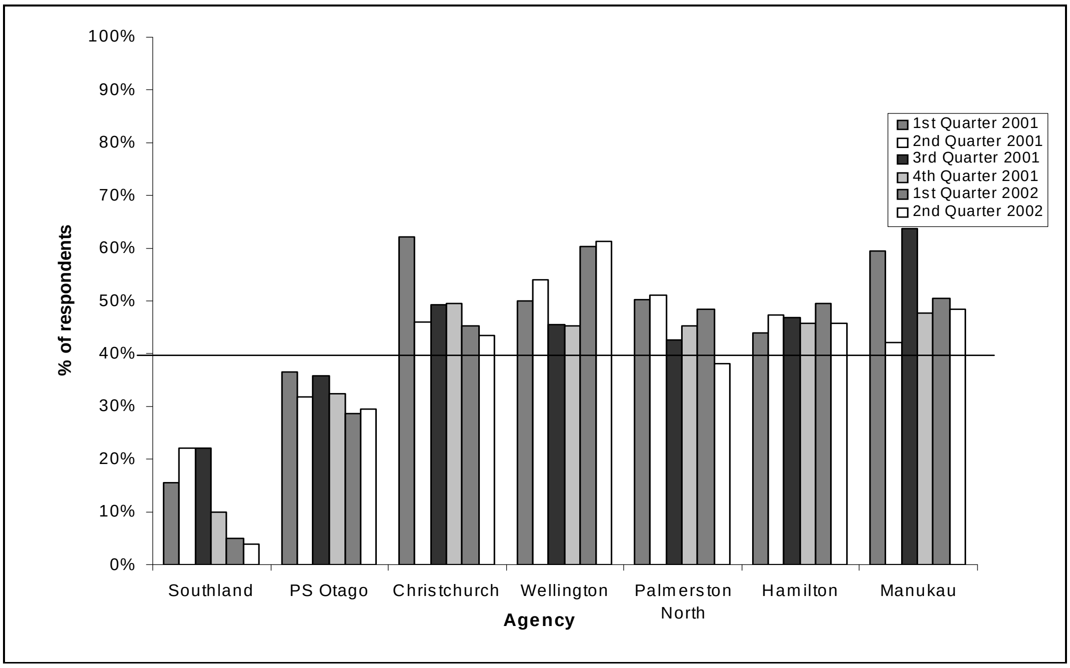
Debt and poverty are inextricably linked, as living a state of poverty makes people particularly vulnerable to incurring debt. A range of broad structural and situational factors underlie the acquisition of debt by people on low incomes. Such structural factors include lack of access to adequate income (via the employment market or social assistance), housing tenure, occupation and educational level, childcare costs, household structure such as the presence and number of children (Ford, 1991) and available credit options. Such factors produce an ongoing cumulative effect of inadequate income and attendant debt.

Research into monetary constraints facing low income households in New Zealand shows that many low income households end up in debt (Waldegrave, King and Stuart 1999). This is at least partially due to having inadequate income to meet their expenses. Recent research by Presbyterian Support Otago (2002) indicates that the shortfall between the minimum adequate income[3] and benefit rates is significant, especially for families with children. This research estimates that the weekly shortfall for a five person family reliant solely on benefits was $75.81. It estimates that the weekly shortfall for a family of three was $17.08. These figures are reflected in the Waldegrave et. al. (1999) research which found that 73% of low income households did not have the ability to pay regular household bills during a twelve month period.

Housing is a significant cost for people on low incomes and housing costs remain high despite the move to income related rents. Over 25% of households spent more than 30% of their income on housing in 1998 (Ministry of Social Policy, 2001) and over 11% of accommodation supplement recipients paid greater than 50% of their income in rent in 2000 (Waldegrave 2000) . PIP data indicates that more than 40% of foodbank applicants at most foodbanks surveyed pay more than 50% of their income in accommodation costs. With housing costs remaining high, it is clear that housing remains a key driver of inequality and poverty in New Zealand (Howden-Chapman, 2000).

[3] The estimate of minimum family income is derived from the work of Stephens *et al.* (1995). The estimates used by Presbyterian Support Otago err on the conservative side.

Figure One: Percentage of PIP Respondents Spending Greater than Half of Net Income on Housing Costs



Source: NZCCSS 2002

Both the Federation of Family Budgeting Services (2002) and the PIP data indicate that debt to Government agencies is an increasing problem. Policies aimed at reducing welfare spending have continued to be introduced since the landmark 1991 benefit cuts (Boston, 1999). Changes include stricter entitlement rules, longer stand down periods and the replacement of grants by loans. These policy changes have contributed significantly to levels of debt.

The replacement of grants by loans has been a very significant method of reducing welfare expenditure – each year about $100 million of welfare assistance is given in the form of a loan which the recipients are required to repay (McGurk, 1999). Accompanying this policy has been the tightening of criteria for non-recoverable means of assistance such as the Special Needs Grant. Other reported means of purposefully reducing welfare assistance includes discouraging applications and not informing potential applicants of their benefit entitlements (McGurk, 1999).

Hula and Toa's Story

Hula and Toa are Samoan and have five children, the youngest of whom is 8 months old. They fell into unmanageable debt when Toa was fired from his job as a night-time security guard for falling asleep. He was given a 13 week stand down by Work and Income. The family had a severely reduced income during this time, receiving only Hula's half of the married rate of unemployment benefit. Hula was pregnant at the time and they now have an eight month old baby.

The lack of income caused by the stand down meant that the family was not able to meet basic needs, such as providing warm clothes for the children. One of their children contracted rheumatic fever and had to have time off school. During this time the family was in private rental accommodation, paying $235.00 per week in rent. Even when Toa was employed, paying this amount in rent was creating hardship. The family is now in state rental accommodation, paying $80.00 a week in rent.

At the time Toa lost his job, the family had hire purchase agreements and were paying off a car. During the period of the 13 week stand down, their strategy was to ensure that their children had food. To do this they stopped paying bills and debts, which led to spiraling debt. They have had their car repossessed and accumulating interest has increased their other debts. This has also meant that when they need to borrow money now, they are forced to rely on loan sharks.

Family and church participation is very important to the family but this has also led to debt, as they have taken out loans to contribute towards the cost of family funerals and church activities.

Both Hula and Toa want to work and see this as the main way of getting out of their current hardship. However, Toa is disabled. The aim is for Hula to find work but it has to be local, since the family is now without transport. Also, Hula is still breastfeeding their 8 month old baby and is concerned at facing the cost of buying formula milk if she finds work.

Without debt we are very happy. But from now on we are very stressed, we didn't pay off our loans and hire purchase and so on… my wish for next year, I want to clear all of the loans and all the credits, then my family would be happy.

2.2 Full Entitlement

Recent research has found that high proportions of beneficiary households are not receiving their full entitlements of welfare assistance (Downtown Community Ministry, 2002; Wellington People's Centre 2000, Howell, 2000; Povey, 2002).

> Since early this year, the Ministry of Social Development has known from its own analysis that some 95,000 beneficiaries have apparent eligibility for the Special Benefit, but that fewer than 15,000 have been receiving it (Downtown Community Ministry, 2002) (p.3).

Analysis of Ministry of Social Development data shows that Maori and Pacific peoples fare particularly badly regarding receipt of a Special Benefit. Pakeha households were 60% and 83% more likely to receive a Special Benefit than Maori or Pacific Peoples households respectively (Downtown Community Ministry, 2002). Inconsistencies in system administration and accidental overpayments of benefits also result in hardship for families when these are forcibly repaid at levels determined by Work and Income (McGurk; 1999; Povey, 2002).

It should be acknowledged however that Work and Income has been putting considerable effort into trying to ensure that people do receive their full entitlement. There are signs in relation to the Special Benefit, that Work and Income practice is improving and that an increasing number of people are receiving their full entitlement.

2.3 Situational Factors

Another key factor that can tip people into debt is unexpected circumstances. Those living on low incomes are particularly vulnerable to a sudden disruption in income as a precursor to debt. Overseas studies (Ford, 1991; Kempson, Bryson, & Rowlingson, 1994; Ryan, 1992) have shown these disruptions to occur as a result of illness, unemployment or change in household constitution (additional children or separation of partners).

2.4 Credit Market

In addition to the debt resulting from a mixture of inadequate income, high costs, changes to the provision of social welfare and unexpected circumstances, the structure of the credit market itself can trap people in debt. Credit markets are segmented in nature, structured in particular ways so that income bears a close relationship to available credit options. The structure of these markets means that low income people often have to rely on second tier financial services, forcing them into high interest debt. Low-income groups have commonly been found to use a mixture of first tier and second tier financial services (Kempson et al., 1994; Manning, 2000; Rowlingson, 1994). However, their use of first tier services (banks and formal lending institutions) may be fairly minimal relative to second tier and often declines as income levels decrease. The second tier financial services carry high interest debt.

Maria and Suka's Story

Maria and Suka are Tongan and have 4 children the youngest of whom is 2 years old. Suka works at a low paid job, bringing home under $400 net per week, supplemented by the accommodation supplement, special benefit and child tax credit. They live in a private rental house, where they pay $250.00 per week in rent. Suka and Maria recently got back together after having been separated for over 2 years. Maria's DPB and accommodation supplement were stopped as soon as she notified Work and Income about getting back together with Suka. Low wages, high housing costs and a 2 month delay in being granted the accommodation supplement and special benefit have seen this family spiral quickly into debt and hardship.

During the 2 month period of waiting for their benefits to be processed, the family went repeatedly to a money lender to borrow money for food and petrol. The money lender charged 25% interest, with the interest doubling for every week it went unpaid. The family owes $80 interest on $400. If they fail to pay the interest, it doubles to $160.00 in the next week and so on.

Their debt problems were also exacerbated by the debt arrears that Suka brought with him. These arrears were largely due to the fact that Suka had money stolen from his account by a relative. This saw Suka get behind in his debt repayments. One of these debts was a joint bank loan that he and Maria had obtained when they were together previously, taken out in order to consolidate their debts. Repayment on this is $235.00 per week. When the bank could not withdraw its loan repayments from Suka's account, it withdrew them instead from Maria's account, but without notifying her. This meant that there was not enough money for Maria's rent AP and she fell behind on her rent payments.

Currently the family is prioritising paying off the debts that incur the largest penalties. These are owed to the money lender and to the Department of Courts, for driving and parking infringements. The Court fines will incur a penalty of $100.00 per fine (there are two) if a $20.00 weekly repayment is not met.

The priority for Maria is to stop the debt increasing. This means that the family is going without food and clothing as virtually all their income is going on debt repayment.

So Thursday's (pay day) you would hardly catch me at home. I have to go and pay that and that and that. …My baby just started school yesterday and we couldn't even afford to get her shoes for school so she is in jandals. None of them have jackets. On the days that it is raining, I keep them home because they don't have jackets or umbrellas or anything. I just keep them home.

The family is also substantially in arrears for rent and expect to face eviction. Maria sees finding accommodation at a lower rental as key to helping the family out of debt.

It only took us two months to get in this big mess. If we knew that we were going to be in this much mess we would have stayed apart at least until we got cheaper rent or something. We have applied for Housing NZ and we are waiting.

2.5 Second Tier Credit

On the whole the literature reveals that those with fewest credit options (that is, those who do not have sufficient credentials such as sufficient income, assets, permanent employment or a credit record) tend to use "fringe banking services" (Casky, 1994) such as money-lenders, check-cashing outlets, mail order catalogues and pawnbrokers. Credit store cards and hire purchase are also frequently used, although not by the most economically marginalised as they often lack sufficient credit ratings. Research regarding use of credit cards by people in poverty is mixed (Bird et al., 1999; Manning, 2000; Rowlingson, 1994). On balance the evidence suggests that credit cards are utilised more sparingly than other forms of credit, tending to be drawn on by those who have been on low incomes for shorter periods of time. Personal loans from first tier financial services such as banks are the least utilised.

Research conducted in Britain and the USA shows that since the de-regulation of financial services in the 1980s banking services have become more expensive and inconvenient for low-income groups (Alwitt & Donley, 1996; Kempson et al., 1994; Manning, 2000). In these countries, rapidly rising bank fees and minimum account balances together with the closing of full service banking are fast reducing the availability and desirability of basic financial services for low-income groups. Existing New Zealand reports (Gill, 2001; Simon, 2000) concur with these trends: bank profits are now often boosted by shrinking services, bank closures in some areas and spiralling fees charged to the "non desirable customers" such as low-income consumers. According to a Consumer's Institute report:

> It is only people at the bottom of the stack who are being milked left, right and centre. If you have a reasonable amount of business with the bank, you can have virtually all your fees waived…..But if you are on the bones of your arse, if you have to be scraping to find where the next feed is coming from, put a pair of shoes on your kid's feet, that is a significant amount of money that is going in the pockets of bankers where it should be going to the feet of the children or the belly of the family (Simon, 2000, p.7).

American and British studies demonstrate that such changes, which effectively discourage the participation of low-income households in first tier credit institutions, have led to sharp rises in the number of households without first tier financial services. In the USA the number of households without first tier bank accounts rose sharply during the first decade of banking de-regulation from 6.5 million (9%) in 1977 to 11.5 million (14.9%) in 1989. Overall, only about 60% of households with less than $10,000 annual income are estimated to have a bank account, in contrast with 99% receiving over $50,000 income according to the Federal Reserve's 1995 Survey of Consumer Finances (Manning, 2000).

Similar trends are apparent in Britain and currently 1.5 million households lack even the most basic of financial products such as a current household account and home contents insurance and a further 4.4 million are on the margins of financial service provision (Kempson & Whyley, 2001). In their study, those found to have the highest risk of "financial exclusion" from mainstream banking and credit services include people earning low incomes, claiming means tested benefits and migrants from less wealthy countries. The length of time since the head of the household had been employed was also found to be an influential factor. This is a key policy concern because the options for operating a household budget without financial services are more expensive and tend to be less regulated. Another frequently used form of credit by those living on low incomes is borrowing from family and friends, who often have similar incomes and limited ability to help. Amounts frequently borrowed are not large and are most often for the purpose of making "ends meet" (Kempson, 1994).

The vast differences in credit options available to wealthy and low-income groups both reflects and produces social inequality. This is the case within New Zealand and internationally. For example, pay day loans from pawn shops or check-cashing enterprises in the United States cost over thirty times more than financing purchases on credit cards. In the relatively less regulated waters of fringe banking (such as cheque-cashing outlets, car-title pawns, sale-lease back loans, rent to own stores and cash lending), finance rates commonly range from 180% to 520% APR and even higher. (Manning, 2000). British case studies (Kempson et al., 1994) have documented the "vicious cycle" of debt for many low-income families with limited credit options. The key observation is that once a loan is taken out "making ends meet" often becomes much harder. The case studies in this research demonstrate the downward spiral taken by some families as they successively borrow at higher rates of interest to service payments of previous loans. In these cases, credit options progressively narrow as debts climb, thus creating greater social inequality.

The literature also suggests that credit market structures create greater social inequality along axes of ethnicity, gender, age, (dis)ability, occupation and tenure. Credit access for those groups who are typically at the margins in wealthier, developed countries is more constrained than for other groups, tending to limit them to more expensive options (Ford, 1991). Equally significant is that the particular pathways into debt for different low-income groups (and thus greater social inequality) will most likely be influenced by the dynamic interplay of these structural factors and the ways in which the credit market is segmented.

Rewia's Story

Rewia, a Maori woman, lives with her son and three grandchildren, the youngest of whom is 8 months old. She has custody of her daughter's three children because her daughter developed schizophrenia with the birth of her first child and her condition has worsened with the birth of each subsequent child. Rewia is on an invalids benefit but is engaging in study so as to find employment. However she is concerned that her obesity will mean that she won't ever find work. Her obesity has caused severe health problems including sleep apnoea.

Because I am overweight…they will look twice at me before they even accept me. This doesn't make me any happier because if I can't get a job what's the use of all these things that I am getting… these degrees…I am going for my diploma but if I can't get a job that is going to take me off the benefit…I get quite depressed when I think (about it).

Rewia's debt has for the most part been hire purchase or credit to buy household items with existing household items as security. She has debt to numerous sources and sees this as an impediment to her being able to service them. In most cases she has not been able to keep up repayments and goods have been repossessed or existing household items have been taken. This has led to her having to purchase household items on credit to replace the ones that had been repossessed, thus establishing a new debt while still paying off the existing ones.

Clothing has also been something that she has purchased on credit, both for herself and the children. She buys regularly from a mobile clothes store, which sells on credit from a truck. She also has to buy special clothing for herself because of her size.

Rewia has tried budgeting. She found it would help for a while, but then her changing circumstances would mean that she again lost control of her finances.

It works, it is just that when the budgeting was working, tragedy comes into your life… like my daughter got pregnant and I had a grand daughter that was coming and my daughter wasn't well and all my resources were focused on her and …we just went haywire. My accident was another thing. I had an accident…my daughter gets pregnant, my husband dies…

2.6 Level of Debt

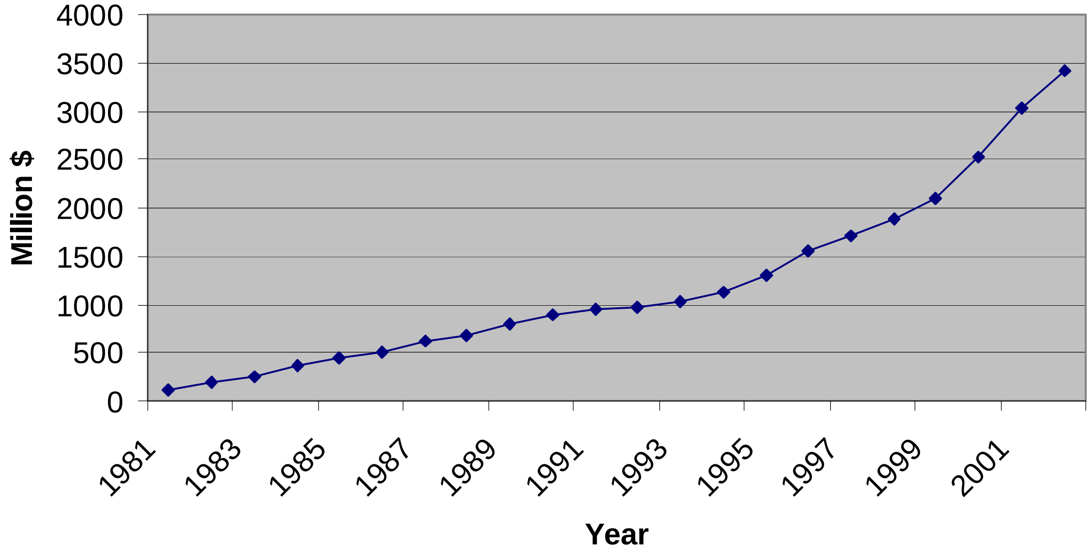
The Bigger Picture

The large increases in household debt in New Zealand over the past two decades have not been offset by a corresponding growth in household financial assets. Household financial assets have increased 80% in real terms since 1980 while household liabilities have increased by 240% (Thorp & Ung, 2001). Household loans which make up 85% of household debts (Thorp & Ung, 2001) are frequently used to finance consumption, or relatively unproductive investments (Brash, 2002) such as a car or household commodities. Using aggregate figures, the Reserve Bank of New Zealand statistics show that by 2000 New Zealand households were spending more than they were saving (Brash, 2002).

Credit card debt amongst New Zealanders is steadily rising. For the month of April 2002 total credit card billings for New Zealand issued cards[4] stood at $1,309 million. Figures for April 2001 and April 2000 were $1070 million and $763 million, showing annual increases of $239 and $307 million respectively (Reserve Bank of New Zealand, 2002). This is quite remarkable given that New Zealand's inflation rate has been running at around 2% for some time.

[4] Total credit card billings for New Zealand issued cards refers to amounts funded in New Zealand and overseas on cards issued in New Zealand.

Figure 3: Credit Card Advances Outstanding New Zealand.



Source: Reserve Bank 2002 Low Income Households

The problems of inadequate income and high costs, when mixed with low access to reasonable credit, have forced many low income people into debt. One New Zealand study found that 64% of low income households were in debt (excluding mortgages) and that 20% of low income households had debts of over $2000, with the average debt equalling $3,179 (Waldegrave *et. al.* 1999). Perhaps the most comprehensive information available to date regarding debt levels and their nature for low-income groups is provided by the New Zealand Federation of Family Budgeting Services. This draws on data collected by 28 of its affiliated budgeting services from around the country. For the 2000/01 year the total number of clients worked with stood at 38,077, well above the 1991/92 level of 17,469 clients. The total arrears presented by new clients during the financial year was $50,119,676. Fifty-four percent of those requesting budgeting advice identified government social assistance as their primary income source.

Additionally New Zealand's network of Budget Advisory Services reports that more people are requiring its services. In the 12 months to June 1999, it reported that the number of people applying for budgeting advice rose from 70,500 to 91,000 and that the total amount owed by its clients increased from $43.7 million to $56.4 million (Ministry of Consumer Affairs, 2000).

2.7 Debt to Government Departments

In addition to private debt through bank loans, loan sharks, personal loans and other means, one of the other main sources of debt for low income households is government debt; including beneficiary debt, student loans, court fines and rent arrears. Federation of Family Budgeting data pertaining to "debt type"[5] shows debt to government departments to be the single largest category at $431,184 for 2000/01 – an increase of $328,285 from the previous year. Data from NZCCSS' Poverty Indicator Project (PIP) substantiates these findings with debt to Work and Income being the most common debt category for foodbank users. In the first quarter of 2002 an average of 48% of clients were identified as being in debt to Work and Income. Other categories of high debt identified by Federation clients were:

Table 1: Categories of Debt

Debt Category	Level of Debt
Retail Goods	$346,176
Utility Services	$307,287
Accommodation Providers	$306,047
Court Fines	$260,012
Telecommunication Providers	$158,587

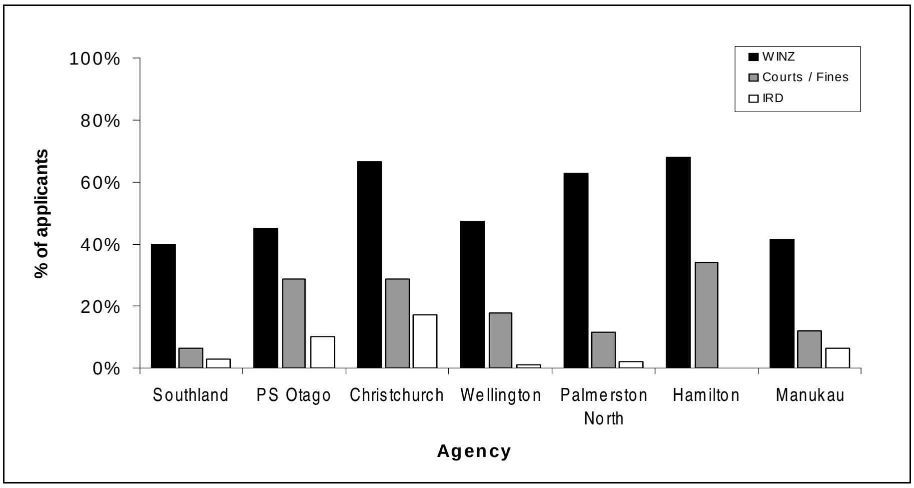
Beneficiary debt to Work and Income New Zealand continues to remain high and is rising. Figures recently released by the Ministry of Social Development under the Official Information Act for the purposes of this report (Ministry of Social Development, 2002) show the numbers of beneficiaries in debt to Work and Income have risen from 167,108 in April 1998 to 174,201 in April 2002. While as at 1st April 2002, 75% of these were for amounts of $1,000 and less, this percentage has decreased over the past four years from 79% in April 1998. Over the same time period, those owing $10,000 or more has steadily risen, having increased by almost 2,000 people.

Debt categories suggest benefit and income levels for many New Zealanders to be insufficient to meet general living expenses. The highest debt categories by total

[5] Data pertaining to "debt type" was collected from 20% of clients presenting to affiliated services for budgeting assistance. As noted earlier, collection of data about debt is particularly difficult, and hence these figures need to be interpreted with caution.

value in descending order for 2001 were: tenancy bonds, other accommodation costs and white ware such as washing machines and fridges. Other debt categories with high debt values were dentures, glasses & hearing aids, car repairs, dental treatment and school uniforms.

Figure 4: Percentage of PIP Food Bank Applicants with Government Debt Second Quarter 2002[6]



Source: NZCCSS 2002

Outstanding fines to the Department for Courts are steadily increasing. For the year ended 30th June 2001 the outstanding balance was $350 million, with unpaid fines having increased by $38 million from the previous year. Those under time management, which often include many people on low-incomes, also increased substantially in value.

Despite the introduction of income related rents, rental arrears owed by Housing New Zealand tenants (a traditionally low-income group) to the State are significant. As at 31st May 2002, the number of tenants in Corporation properties with arrears in their rent was 5,703. The total value of arrears was $1,121,573 (Gosche, 2002).

Student loans are now the largest non-housing debt category in New Zealand (Thorp & Ung, 2001) with an estimated one in ten New Zealanders now having student debt

[6] Hamilton foodbank government debt figures have been calculated on the number of respondents to the debt questions rather than the number of applicants.

(New Zealand Press Association, 2002). The average cumulative student loan debt owing to the Inland Revenue Department has increased from $5,524 in 1993/94 to $12,496 in 2000/01. At the year ended June 2001, there were 314,280 borrowers with loans outstanding – 20% of these were over $20,000 (Ministry of Education, 2001). Average student debt (all sources) has risen by 18% since 1998 and is over 50% higher than 1996. However average income for students has increased by only $500 since 1998 (New Zealand University Students Association, 2001).

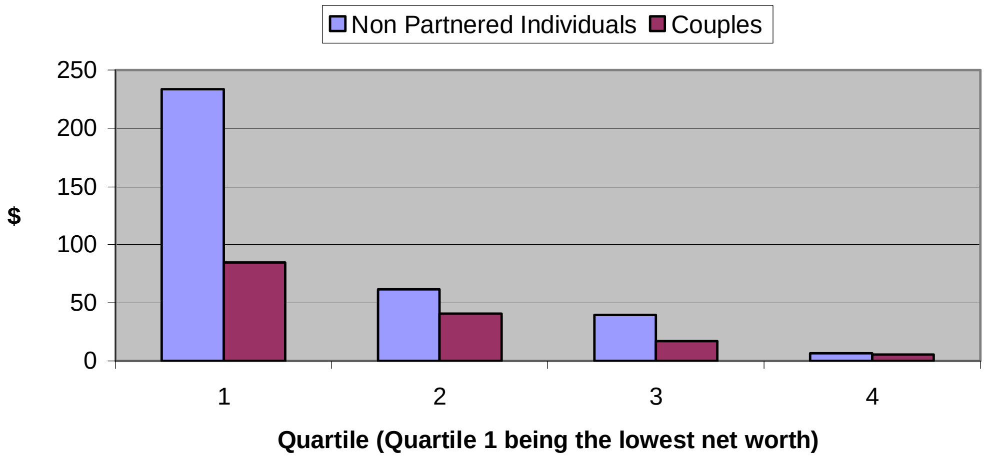
Thus there has been a significant rise in the amount of debt facing New Zealanders, and these levels of debt continue to increase. Inevitably these rising debt levels have an impact on both society and individuals, especially those who are already struggling on low incomes.

3. Impact of Debt

The impact of debt is unevenly distributed in New Zealand. These differential impacts reflect international trends. International evidence shows the distribution of debt to be very uneven, although certainly in dollar terms it is the higher income households with the larger debts. However, *proportionately,* low-income households bear the highest consumer debt burdens (Bird et al., 1999; Ford, 1991; Manning, 2000).

Research undertaken in Scotland in 1981 highlighted the very low incomes of debtors summonsed to the court and in the early 1990s increases in the extent of low-income debt throughout the UK were clearly evident (Ford, 1991). A 1991 Credit and Debt survey in Britain found that debt was most heavily concentrated in low-income groups. Twenty percent of those with incomes between 50 and 99 pounds and 17 % of those with incomes between 100 and 199 pounds per week had experienced problems paying debts, compared to 10% of those with incomes over 400 pounds (Ford, 1991). Particularly startling are more recent statistics from the United States. The 1995 Survey of Income and Programme Participation (Manning, 2000) found that for families with an annual income of less than $12,940 (the lowest family quintile), their mean consumer debt of $4,104 is an enormous 52.8% of their mean family income of $7,779. This compares with 27.9 % for the second quintile of family income ($12,940 - $23,138), 22.6% for the third quintile ($35,919 - $54,956) and 16.2% for the fifth quintile (over $54,946).

Figure 5: Debt per $100 of Assets by net worth quartiles in New Zealand



Source: Statistics New Zealand 2002

This international evidence is backed up by the New Zealand experience. A recently released study of the net financial worth (the value of people's assets less the value of their debts) of people living in New Zealand aged eighteen years and over provides evidence regarding asset and debt accumulation by different population groups (Statistics New Zealand, 2002).[7] The report highlights the uneven distribution of net worth across the New Zealand population. This ranges from a total net worth of -$3.303 billion for those in the lowest (net worth) decile to a total net worth of $194.546 billion for those in the highest. Sixteen percent of total economic units[8] had negative net worth while 30% had net worth over $200,000.

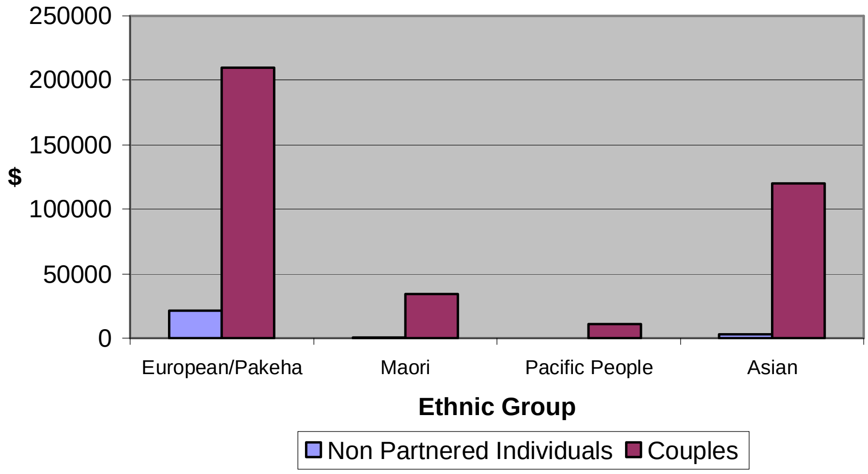
Consistent with the over-representation of Maori and Pacific peoples in unemployed and low income groups is the significantly lower net worth of these groups relative to non partnered European/Pakeha individuals and couples. Also very evident in the report's findings is the impact of family structure on net worth – namely the number of dependent children per household, number of adults per household and in cases of sole parenthood, the importance of gender. Sole parents had a median net worth of $2,900 compared with $11,700 for non partnered individuals with no dependent

[7] While the focus here is on net worth rather than just on debt, the significance of debt is reflected in the ways in which it affects values of net worth for different deciles.

[8] In the report "economic unit" refers to either a non-partnered individual or a couple. A non-partnered individual is considered an economic unit and a couple is also considered one economic unit.

children. Women in sole parenting roles (who comprised 84% of sole parent families) had a net worth of $2,500 contrasted to $28,200 for sole fathers. It is likely that these figures are in part related to labour force status and age of the children.

Figure 6: Median Net Worth By Ethnic Group NZ



Source: Statistics New Zealand 2002

Figures show that those with the greatest debt burdens (in terms of both value and numbers of people) to be generally between the ages of 20 and 44 years, indicating increased risk of debt during child rearing years. Furthermore, Ministry of Social Development figures indicate that Work and Income debt is borne heavily by Maori relative to other ethnic groups. For example, as at April 1, 2002, New Zealand Maori accounted for 37% of beneficiaries with debt to Work and Income compared with 42% for European. Twenty eight percent of Maori beneficiary debts were for amounts of $1,000 upwards, compared with 22% of beneficiary debts for Europeans (Ministry of Social Development, 2002).

Demographic patterns are also evident in relation to debts that tend to finance general expenditure[9] such as bank loans, credit cards, and hire purchase debts (Statistics New Zealand, 2002). The median net worth of those with bank debt was also lower than the median net worth of those who had no bank debt, alluding to a relationship between income, assets and credit options. Median hire purchase debts

[9] The distinction between debts related to general expenditure and those that are tied to an asset (such as a mortgage) is significant as the latter is a form of investment while the former, which is commonly used by low income groups, finances day to day living.

were also highest for Maori, Pacific and unemployed peoples. Pacific peoples were shown to have the highest proportion of bank debts. Credit card debt was fairly evenly spread across the population, although highest for those with lower net worth. However, aside from the associations drawn between particular demographic structures and patterns of asset to debt ratios, the report tells little about the use of credit by low-income groups, as it focuses largely on first tier credit services used by the general population.

Rebecca's Story

Rebecca is a sole parent of European ethnicity with two children, Simon and Daniel. Rebecca's first pregnancy was a result of rape. After the birth of this child Rebecca went on the DPB.

Rebecca has in the past been in a situation of spiralling debt, with HP debt, credit card debt, and arrears on power and phone. Outgoings exceeded her income which came from the DPB, accommodation supplement and Family Support. Rebecca's family have been very supportive, regularly paying the power or phone bill, as well as giving $50.00 a week for a number of years. Rebecca was often in a situation where she needed to be helped by her family.

Approximately two years ago, Rebecca decided to get her finances in order and get out of debt. The catalyst for this decision was the death of a family pet. She had not been able to afford vet treatment and the cat was put down as the cheaper option. The sadness this caused for her children made her decide to have more control over her spending and income.

Rebecca did a budget, with the help of a friend. Her friend controlled her money for a period of six months so that bills were paid. Rebecca also negotiated a bank loan to consolidate a number of her debts. She became very organised about her finances – budgeting and cutting back on her spending. She was committed to living within her means, even though this meant restrictions on food and recreational activities for her children.

In some ways I think my quality of life has gone down because I don't want to get back to where I was. One thing I've noticed is Simon is now {getting older} and he eats like a horse and I tell him off if he grabs an extra apple or something because that's to last us through a week of school lunches…he doesn't do soccer, he doesn't do anything now. That's basically because of income.

Rebecca found work as a casual reliever in pre-schools and declared this to Work and Income. Work and Income put her on a weekly abatement regime, whereby they abated each benefit payment by a different amount depending on her statement of earnings. Rebecca found that she was in hardship because of how much she was losing from her benefit and queried how they were calculating her earnings. On one statement she received, her fortnightly earnings had been entered as her weekly earnings. However despite having asked for it a number of times, she was not given a copy of her file and could not get clear information about how her earnings are calculated for abatement. She has also found out that she should be on an annual abatement regime. This method would give her certainty of a base weekly income.

At the time she was interviewed, Rebecca was behind in her rent payments for the first time in a number of years. As a strategy to manage in her current situation, Rebecca is having to look at going into arrears on her rent payments for the weeks when her main benefit is substantially abated, as well as cutting back on food.

From working hard to gain a sense of control and order over her finances, Rebecca now feels that she has lost that control. As she has no certainty of how much income she is receiving each week, she cannot budget. Budgeting is her primary strategy for keeping out of debt.

Rebecca describes herself as being very stressed and having less time and tolerance for her children. She is angry at the way her case managers have treated her and the fact that they seemed to have no concern that her family is in hardship.

3.1 Impact on Women

The "gendered" nature of poverty (and debt) now frequently features within the literature. The cause of women's poverty and vulnerability to debt lie in the gendered division of labour "which disadvantages women economically, socially and politically within the household, the labour market and the social security system" (Ford, 1991, p.71). Men generally control and allocate financial resources and women undertake the financial management of them. In this respect, Bailey (1999) has focused attention on the all too common situation of women accepting liability for their (male) partner's debts[10]. According to Bailey, this occurs because of the relationship with the principal debtor and "the emotional pressure and/or economic dependence involved in that relationship (p.1002). She refers to this as the "sexual transmission of debt". Ford (1991) also points out that as women frequently contract and service credit commitments, repayment problems tend to fall into their domain. Women are often regarded as free to undertake this area of responsibility "either because their own employment is part time, is regarded as less significant than the man, or because they are at home all day involved with tasks that are accorded little priority or prestige" (Ford, 1991, p.81). Simply making ends meet becomes a full-time job which pre-occupies the minds of many people most of the time – this seems to be especially so for women (Nettleton, 1998a). According to New Zealand social service agency representatives, it is not uncommon for women in this country to resort to prostitution as a means to combat debt (Kelly, 2001).

Women's access to credit is often restricted to higher cost forms due to lower incomes. It has very often been informal sources of credit, often community based and accessed through a range of kin and social networks, that have been the primary means through which women have accessed credit. These access routes are used not only because their demand for credit comes out of their responsibility for family survival and reproduction, but also because their networks are imbedded in reproduction rather than productive activities (Lemire et al, 2001).

[10] Generally the responsibility for the debt is transmitted in one of three ways: through the provision of security, (such as a mortgage) as a guarantee of the partner's business debts, through joint entry into a loan contract or as a silent partner in a family business (Bailey, 1999).

3.2 Impacts of Debt on Low Income Families: Health, Wellbeing and Relationships

Debt has significant impacts on families suffering under its burden. These impacts can be both psychological and physical (Kempson et al, 1994; Nettleton, 1998; Reading, 2001). High debt levels have been demonstrated to have significant impacts both on people's emotional well-being (Drentea, 2000; Nettleton, 1998a; Reading, 2001) and their social relationships (Kempson et al, 1994). Research attributes the negative psychological impacts of debt to factors that include the stress of owing money, combined with the knowledge that one is forcibly paying high interest rates (Drentea, 2000), harassment by creditors and uncertainty and loss of control (Nettleton, 1998a). Studies (Drentea, 2000; Hatcher, 1994; Reading, 2001) have found that debt levels are significantly associated with depression, and the central place of debt in the association between socio-economic hardship and maternal depression found in one study (Reading, 2001) has important implications for the well-being of children in these families. Feelings of shame, seeing oneself as a failure and other negative internalised identities on the part of debtors are common (Ford, 1992; Kempson et al; 1994).

These feelings of shame are often related to credit type. The social view of people with severe credit card, hire purchase or "second tier" type debts, is often that they are spending more than they earn, and that this is shameful. Alternatively normative debt, such as purchasing a home is associated with stability, responsibility and being a tax paying member of a community. For these reasons, non-normative debts, primarily those of the less wealthy can be particularly stressful (Drentea & Lavrakas, 1999). This can lead to social isolation. Social isolation is linked to poverty, especially in relation to debt (Nettleton, 1998a). People report that they do not go out often, both because they cannot afford it and because of the stigma and associated feelings of shame related to being in debt. Debtors often report deterioration in their relationships with their partners and children (Ford, 1992; Kempson etal, 1994).

Research pertaining to health impacts of debt also demonstrates the connection between psychological distress and physical health status. Anxiety attacks around court and other debt related proceedings are not uncommon (Kempson et al, 1994) and studies (Drentea, 2000; Nettleton, 1998a) report increased consultations with general practitioners (for those who can afford them) on the part of debtors. The large proportion of suicides and para-suicides committed by people with problem debts (Hatcher, 1994) is particularly telling regarding this association.

Families experiencing high levels of debt and poverty have a tendency to spend less on quality goods and services associated with their own health (Drentea, 2000). They often endure poor diet, cold and damp housing, insufficient clothing and footware and tend to forgo dentistry and medical treatment (Nettleton, 1998a; Kempson et al, 1994). While to date no New Zealand studies have investigated the effect of debt on physical well-being, the health impacts of poverty are well documented (Howard-Chapman, 2000, Williams et al, 1999).

Susan and Allan's Story

Susan and Allan, both of European ethnicity, live with three children, the youngest of whom is 18 months old. The oldest two children are from Susan's previous relationship. Susan is seven months pregnant with her and Allan's second child. After Susan left her previous relationship because of domestic violence, her income as a sole parent came from the DPB and working two jobs. Susan retained the family home but still had mortgage payments to make on it. Her ex partner left NZ to live in England and has paid the minimum Child Support, although he is on a high income.

Susan had no debt arrears and managed her finances well. She had two credit cards but made payments by the due dates. After getting together with Allan and having another child, Susan found that her income went down. Allan's income from working was not consistent or high paying enough to meet the family's needs.

Another pressure on the family was the fact that Susan's two youngest children from the previous relationship both have severe ADHD and are consequently high needs. Allan also brought some debts into the relationship, the repayment of which cut into the family's disposable income.

Susan and Allan went onto the married rate of the Community Wage. To reduce costs, they decided to sell Susan's house to realise the equity. They decided to shift to a small town about 100 kms from the city, where property prices are lower and consequently have lower mortgage repayments. However the Work and Income Office in the area they shifted to, did not grant them their full entitlements for a period of 20 weeks.

During the time that the family was not receiving their full entitlement, Susan's oldest son died in an accident. As Susan and Allan were caught up in dealing with the death, they used credit cards to cover basic living expenses, getting cash advances on the credit cards for those things that they could not buy on credit. Compounding interest and lack of income meant that they could not keep up with minimum repayments. They went to the limit on three credit cards and eventually ended up with $23,000.00 in credit card debt. Susan and Allan also had unexpected costs with their house.

Further to this, the family has had to enter into a financial agreement with the funeral home for the cost of the funeral, which was $6,000.00. The father of the child that died did not contribute to the funeral costs.

The family is now getting their correct entitlement from Work and Income. However because of all their debts, and compounding interest, their outgoings exceed their income and they are spiralling further into debt. At the time of the interview the family was attempting to get the house refinanced to consolidate their debts. If the bank did not agree to this, they were looking to sell the house or declare bankruptcy.

Susan's goal after paying off the worst of her debts was to have time to grieve over the death of her son. The long term goal was for her and her partner to set up a business from home. She perceived that with two of her children being high needs, both of she and her partner needed to be at home to look after the children.

3.3 Managing Debt

Strategies for families for dealing with ongoing debt may be defined as roughly corresponding to three categories. Firstly, they may attempt to increase their income through employment, although this option is often strongly constrained by structural factors such as the employment market itself, training and education or childcare costs. Often the two most (immediately) viable strategies are to attempt to cut back on expenditure to avoid falling into arrears with bills or to manage multiple debts, invariably involving a cycle of bill juggling and borrowing.

The literature affirms that neither of the latter two strategies is satisfactory, either for society or for the families concerned. In their study of 74 low-income British families Kempson et al., (1994) found that for those who attempted to cut back on household spending, the costs to material welfare, health and wellbeing and social participation were great. In an immediate sense, people being able to meet their financial commitments and avoid bankruptcy may seem a more desirable outcome for families and society. However, the longer-term implications of "people starving themselves, cutting themselves off from society or living with domestic violence must be considered" at a societal level (Kempson et al., 1994, p.287).

4. Conclusion to the Literature Review

The complex interplay of factors highlighted above illustrates the dynamics of debt in relation to low income families. A variety of factors: structural, situational and personal all play a part in the pathways to debt, and these factors interact within the international and national context. One clear theme that comes through an examination of the literature is the link between poverty and debt. The lack of adequate income is a key factor, which is exacerbated by the organisation of the credit market. The complexity of these factors is reflected in the case studies, which are analysed below.

D. What the Case Studies Tell Us

This section provides an in-depth analysis of the eight case studies for the identification of key issues in relation to their situation of unmanageable debt.

Some of the direct quotes of participants have been altered for the purposes of inserting missing words, making grammatical sense or clarifying meaning. This has been done in cases where the meaning was clear from the context, but not necessarily from the quote. Missing words that have been inserted are encased in square brackets [ ]. In cases where explanations are inserted into quotes, the following brackets are used { }. More detailed information about the research work is set out in Appendix C.

Interviews with the research participants reveal a number of factors contributing to indebtedness. These fall into three broad categories - structural factors, situational factors and personal resources. Structural factors refer to public policies, practices and norms that in turn produce structural inequities between different groups. Such structural inequities are particularly apparent across different ethnic and gender groups. Situational factors refer to people's fluctuating personal circumstances, as these were influenced by often unexpected events and crises. Personal resources refer to the resources that individuals and families have at their disposal to negotiate structural and situational factors. These include dimensions such as levels of education and general knowledge, self-esteem, beliefs and attitudes, personal health, and social and family support. While personal resources play a part in influencing family debt levels, results show these to play a much less significant role than situational and structural factors. Furthermore, personal resources are often shaped by those broader factors.

1. Structural Factors

1.1 Structure / Organisation of the Credit Market

Overall, the research findings demonstrate the organisation of the credit market in New Zealand to feature significantly in determining the nature of debt and poverty dynamics experienced by the families. This is apparent in two distinct ways: differential access to various sectors of the credit market for groups and the ways in which these discrepancies perpetuate wealth and power inequities between groups.

1.2 Access to Credit

Access to credit tended to be restricted to second tier (non-mainstream) financial services for the majority of families. These sources consisted of hire purchase, store cards, mail order catalogues, family and friends and rent to own schemes. For half of those interviewed they also included the less regulated and more financially aggressive services such as pawnshops and money lending agencies. In one case the “money lending agency” consisted of other extended family members, only willing to lend money at exorbitant interest rates. Half of those interviewed had only ever used these second tier forms of credit, as they did not have the financial credentials to access mainstream lending services. This is significant, as the costs of credit for second tier financial services are considerably higher than for first tier.

Those who had been able to access mainstream financial services had either done so through the help of family members, or had achieved this before they got into debt arrears. Two of the interviewees had mortgages, although in one case home ownership was offset against debts totalling $58,000.00 for items already consumed in addition to the $88,000.00 mortgage. Both these families had been able to obtain credit cards, as had one other interviewee.

While on one hand people’s access to credit tended to be quite distinctively limited to particular forms, their experience also was that credit was easy to obtain until they ran into problems. As one woman said:

> *I think that debt is easy to fall into, like the bank for example. They were horrified that I had as much debt [as I did], but they gave it to me and I didn’t even ask for it. Just instant increases on my credit card and [they] wonder why I spent it”.*

The research results also demonstrated a lack of knowledge on the part of interviewees about the consequences of particular lending arrangements. At times this was expressed as perpetuated by financial institutions:

> *If the bank had just explained to me [that having two mortgages would cost me more]. It was like ‘we will create a mortgage for you because you have that equity’…If they had said to me ‘so you realise you’ll be paying for that again?’ I would have thought twice about coming here and getting that mortgage.…but now because I had to go through that system, I am now going to be paying for it all over again. [But] that is how they make their money isn’t it?*

Some interviewees also experienced being negatively stereotyped by those in mainstream credit services as “beneficiaries”. One woman who had been refused the amount of credit she had requested from a bank said:

Even going to the bank that I've been with for 20 years, they judged me as a beneficiary. They saw me only as a beneficiary.

However, also difficult to disentangle are exclusionary practices based on how people are "viewed" or "pigeon holed" by staff from the standard application of loan criteria which also excludes particular applicants:

I went to the bank with a proposal [for a loan]. Originally they'd turned me down. [Then they accepted my proposal], because I told them it was discrimination, because they were turning me down on my income which was a benefit. I had a good credit history with stores and I had a good bank history. So, they had no justifiable reason to turn me down except that I was on a benefit.

1.3 Perpetuating Inequities

Evident in the findings are the ways in which limited access to credit services in New Zealand perpetuate and contribute towards greater social inequality between groups. The downward spiral of increasing debt experienced by the majority of participants was clearly contributed to by their exclusion from mainstream credit services. The second tier credit options they were able to access tended to be expensive and involve high risks for families, relative to the benefits accrued from borrowing. For one interviewee, running out of money to pay for power and nappies one week resulted in the loss of her stereo:

I didn't have enough money that week so I went to the pawnshop and pawned my stereo [that I bought for $800.00]. I borrowed $100.00 but I had to payback $126.00 [including interest] a month later. I couldn't pay it back…..I worked so hard to get that stereo and I lost it.

Another woman who had bought several household items on hire purchase described how she lost these to a finance company after borrowing $350.00 towards her husband's tangi expenses:

They will give you money, but you have to give them the serial numbers of things in your house….I had already taken a loan, but I had to go and get another one because my husband died and I had no way to feed the people that came into my house.

However, as the loan couldn't be repaid:

They repossessed my stuff, my fridge, my washing machine, my stereo, they cleared my whole house out…..The interest was high. They sold all the stuff, but I still owe them $200 and something….The stereo I am still paying off, but it has been given to {repossessed by} …. I am paying a debt that is dead.

The undermining impacts of access to credit that is exclusively restricted to second tier finance systems were also evident in the story of one family left with no choice, after having approached Work and Income, but to borrow money from a local money lending business to buy food:

> *We owe these people $480 and that was just for groceries and petrol…..that was the only way we could get food and that. Their way is that the interest doubles every week if you don't pay it. So the $80.00 is the interest and if we don't pay it this week they will double the interest and it [the loan] will go up to $560.00….Now we can't even go back for groceries from them or anything because we are having to pay the money back*

These exorbitant interest rates combined with the day to day piecemeal existence for this family quickly contributed to spiralling debt levels:

> *First time we loaned $100.00 off them, that is $20.00 interest. Then we paid the interest but we needed more so we ended up loaning another $100.00. [Then] my husband has no petrol for work, so goes up there and asks them for money for petrol and that just went up and up and up.*

These experiences typify the path of exclusion from credit experienced by the majority of participants.

1.4 Ethnicity

While participants did not discuss the structural factors associated with being "ethnically other" in relation to their debt levels, the association between ethnicity and low income (which is an indicator of debt burden), is well documented (Howden-Chapman, 2000). This suggests the presence of other factors related to ethnicity, such as family size, employment and aspects of culture that play a role in poverty-debt dynamics for these groups. Findings support this. Those in the study that appeared to have the most difficulty accessing the employment market (as told by the participants), and thus the most difficulty in employing this strategy to reduce debt were Maori and Pacific families. The number of dependent children in these households was also consistently higher than those of the European households as would be expected based on current New Zealand population demographics (Statistics New Zealand, 2000). This indicates that some ethnic groups, such as Maori and Pacific peoples are more likely to have to contend with additional exclusionary effects (such as employment and number of dependent children) in negotiating the dynamics of debt and low-income.

The results demonstrate aspects of culture to be significant in structuring debt and poverty dynamics. One example was the misfit between the cultural systems of Pacific people's households and the cash economy and credit market in Aotearoa. Central to the well-being of many members of Pacific communities in New Zealand is a sense of belonging and connection with kin. These networks constitute an important sense of belonging and identity (Milne, 1999) and commonly extend back to their country of origin. The importance of these networks was evident in the actions of one recent migrant Samoan family. Soon after arrival in New Zealand, this family bought a television on hire purchase for a relative in Samoa. They also took out loans to finance church activities in their new community and a trip to Samoa for an extended family member. The pressures to finance church activities and good standing in the community were significant: “They make the competition for those who pay much money for the church”.

Those attempting to adapt aspects of culture to the New Zealand context often had considerable explaining to do to maintain significant relationships, as the comments of one Tongan woman in referring to her husband testify:

> *His family think I tell him what to do – I don’t. Even his parents back in the Islands and his brothers and sisters. He rings them and he tells them ‘look, don’t ask me for anything. I know you need money, you need food, but things cost money over here.*

Even those who’d managed to forgo family pressures to provide assistance, did so at significant cost to these relationships:

> *Sure you want to help, that is a cultural way to help your family but there is a limit. I don’t even help my family cause I can’t afford it. But my mum doesn’t understand. She is like ’well you don’t help us with the family things!’*

Olivia's Story

Olivia, a Maori/European, lives with her three children aged 6 and 4 years and 7 months. She is currently living on the DPB and family support, and lives in a state-owned rental.

Olivia has significant debts from a previous relationship. Her partner was an overstayer with no legal status and no income. Olivia lived with the man's family and her income from the DPB was used collectively by the family. Her store cards were taken by the family and used to their maximum. Olivia experienced intimidation from the family, particularly around ensuring that she not name the father. The father does not contribute financially to Olivia for his two children, but has them intermittently at weekends.

Housing costs have been a significant contributor to Olivia's debt. Her private rental was expensive, and Olivia ended up with debts to her landlord. Eventually the high rent forced Olivia to live in a garage. Rent of $100.00 was charged for this garage. Olivia applied to Housing New Zealand and found accommodation with them, but she almost didn't get the house as she had no money for the bond and Work and Income would not advance her this money.

Olivia is lucky enough to have a supportive family, who have paid off large debts at various times. She has a good relationship with her grandmother, but refuses to borrow money from her except to pay for nappies and milk formula between benefit payments. She makes sure she repays her grandmother as soon as her benefit comes through.

Olivia regularly pawns household items and describes having a good relationship with the local pawn broker. She has also bought clothes from a clothing van that visits her neighbourhood, offering credit. She now has a debt to this business, in the form of a formal financial agreement.

Olivia has some historical debts but current debts are all for necessities. She has debt to the power company, but has arranged for a pay-as-you-go system. She has no phone, only a mobile which has no credit so that people can ring her at their own cost.

To increase her income Olivia wants to train in the hospitality industry and find work. She was going to apply for a student loan the day she was interviewed.

The sexual division of labour and women's traditional concern with child rearing, women's limited access to credit and debt transmitted via relationships with men played a significant role in the dynamics of debt and poverty encountered by the participants in the study. Findings support the vulnerability of women to poverty and debt via the inescapable fact that women (not men) bear children and tend to remain primarily responsible for raising them. In seven of the eight households interviewed this traditional division of labour between women and men had played a significant role in these households' indebtedness as all of these women either were or had been single parents for a large amount of time. "Earning power" for example, was often vulnerable to being interrupted:

> *I borrow money [from family] all the time….I have just finished paying it back [$200]…I hadn't worked that week because my kids… my son was in hospital …. and I didn't earn anything'*

Primary responsibility for raising children invariably accompanied a role of being virtually sole provider as one woman's comments aptly demonstrate:

> *My ex husband doesn't pay for them…if he had paid proper child support, the money he was originally allocated to pay, I would never have needed the DPB, I could have always worked my part time jobs and fitted it in with my children, and have the support of my family and not need any assistance from the government.*

Speaking about the combined effect of her ex-husband's lack of financial support and other circumstances she said:

> *I think a lot of things could have prevented this [debt] from happening…Their father lives in England and the exclusive reason of why he left was so he didn't have to pay child support.*

As mothers, these roles often extended to caring for adult children. When asked if any particular relationships had contributed to her debt, one woman replied:

> *Probably my oldest son. When he got stuck, he would come home to mum, had no money to live on and mum had to support him. He's 31. I had to care for him quite a bit last year. He was depressed.*

This person was also the "doorstop" when social assistance failed her son:

> *He is much better now that he has a job and is not being mucked around by the Work and Income system. Something would go wrong and because he wasn't a good advocate they'd just chuck his benefit….It was not always his fault that things were like that but I was the one that had to support him.*

The entrenched nature of women's own expectations on themselves as "carers" was apparent in one woman's comments about her grown son who would return home intermittently to replenish himself in a household where food was scarce:

My son will come home and cook up a big feed, not really caring about anyone else…he is quite stressful on me. I don't want to turn him away and say 'you are old enough to look after yourself'….he has to have some place where it is a sanctuary for him. My house is a sanctuary. But my cupboards can only resource for so long…..The thing is as a person I know what to say, kick him out. But then as a mother…

The transmission of debt through a relationship with a male partner was evident in just under half of those households interviewed. One woman whose husband had died well after they'd separated said: "*Oh yeah, it [her husband's debts], contributed to my demise, cos…his family wouldn't pay for his debts".* Another woman described how her money troubles had started after she had got back together with her husband who had brought significant debts into the relationship:

Since me and my husband got back together….that is where everything just went down. When I was on the benefit, I had enough for the rent and the groceries for us. But now he has got his own bills and he has to pay the rent as well as his own bills and it is a whole mess.

For just under half of those interviewed, the transmission of debt occurred more overtly through the use of "power-over" by male partners. This included the use of physical violence:

Women should leave violent relationships. And when I did that, I was persecuted. And dealing with the after affects of his violence…and when he left, there was a lot of debt.

One woman who had gone to live with her partner's family described her experience in the following terms:

And then his family relying on me to buy this and that for them….they make me buy presents and stuff for people who aren't even related to them, and stuff like this on my Farmer's card…..whether I liked it or not….I was given no choice, I had to do as told by him.

When asked why she had no choice, she indicated that she'd already been "slapped" a few times for not doing what her partner and the family wanted. This woman was forced to give control over her finances to this family:

I would be on a benefit and that and they would take the benefit off me and I would see nothing. I was not allowed to touch any of the money. I had to give it over whether I liked it or not.

Several interviewees had chosen not to name the father of one or more of their children because they did not want any ongoing association with the father[11]. For some this occurred after an abusive relationship:

[11] There is a standard deduction of $22.00 a week per child from the DPB, where the father is not named, except in some specific circumstances e.g. where the pregnancy was a result of an assault.

I'm not looking to get rich, I'm looking to survive. My first son, I didn't name the father because there was an assault with that and I didn't even know I was pregnant till I had him.

1.5 Accessing the Employment Market

Even though I am in a hard place, there is light at the end of the tunnel, but there wasn't a light at the end of the tunnel fifteen years ago [The light is] my ability to earn money….

All participants deemed access to employment as being the single most important factor to improving their situation. However, such leverage was contingent on employment being consistent and well-enough paid. With the exception of two participants (one was working full time and the other chose to be a full time mother), all of those interviewed were either seeking employment, further employment and/or in the process of gaining qualifications to assist with this. Findings show that access to childcare that is affordable and suitable in terms of caregiver to be the biggest barriers to employment. Those who were engaged in some form of employment either had the assistance of family to care for children, or had children that were older. One woman whose family was rapidly spiralling into debt and had young children spoke of her options:

I am sure that I can find a job somewhere during the day. But I can't because I won't be able to afford a baby sitter. The option is to get a night job [when my husband is home]. I know that I would have a better chance getting a day job than a night job, because there is more work during the day.

For another woman, constraints on finding suitable employment also included lack of transport and the costs of buying milk for her baby who was still being breast-fed:

I really want to go and find a part time job. So if I want to feed him, I will have to supply the milk or the food for him. To feed him is a big stress for me. Because if I have not enough money [for the milk], I don't know how to find a job. I can't afford to pay milk, it is too expensive.

Half of those interviewed mentioned qualifications as being a barrier to employment. In two cases several years and significant amounts of money had been invested in study towards this goal. For both these women who were now in their 40s and 50s having raised children single handedly while studying over many years, full time employment was still in the future.

1.6 Affordable Housing

Lack of co-ordination between government departments was at times a problem with respect to accessing affordable housing. Among her debts, one participant listed $292.00 she owed to her mother for the bond on her Housing New Zealand house:

> *I asked Work and Income [about arranging the bond] and they told me I couldn't go in till the following week and I rang up Housing New Zealand and asked them to hold it [the house], and they said if they were to hold it, then they would need the deposit on the house….. Work and Income wouldn't help out with the bond…my mum was good and straight away paid the money over .*

Previous to approaching Work and Income and Housing New Zealand, this woman and her three children had been living in untenable accommodation:

> *[At the time] we were actually sleeping in a double garage….that is how bad we were staying before Housing New Zealand got us this house. It was too cold in the garage, especially the concrete floor.*

1.7 Work and Income Issues

Findings reveal Work and Income New Zealand to be a significant institution in the lives of participants, particularly for its role in structuring debt and poverty dynamics for these families. All but one family talked of having experienced difficulties in some form or another with Work and Income. For most these had been considerable, impacting very significantly on debt levels and their lives generally. Participants identified four categories of difficulty with Work and Income: not getting entitlements and long delays in receiving social assistance, hardship caused through debt repayments, hardship caused through the inappropriate application of benefit abatement rates and inappropriate treatment by Work and Income staff.

Just under half of participating families fell into serious debt whilst waiting on Work and Income to provide them with appropriate levels of social assistance. After having made an initial benefit application, waiting times for families ranged from two to five months. For example, a member of a family who shifted cities reported that it had taken twenty weeks to get their full entitlement. This lengthy waiting period exacted considerable costs on this family:

> *We had no debt apart from the mortgage and the car when we moved here….We fought for 20 weeks to get what we're entitled to…[during] that fight and those 20 weeks of waiting for that money we survived on Visas and credit cards…..I had gone to Work and Income for a food grant and they told me to use my credit card, and I had it reviewed and won, but they did tell me to use my credit card, and it*

took I don't know how many weeks [it took for Work and Income] to review that decision.

For one family the imposition of a fourteen week stand-down, due to the father being sacked has resulted in significant hardship, not only for the father, but the entire family. Work and Income provided some assistance to the mother and four children but this was not enough and the family fell seriously into debt arrears.

Findings show that people were refused food and emergency assistance by Work and Income on a number of occasions. One woman whose main source of income was the DPB was refused all requests for food grants or emergency assistance. Another woman whose family had been desperate for food a number of times described one such experience:

> *I was in there [Work and Income]….. and I was crying in there. I said I don't think that you realise that what you are giving us is not enough and I wanted to see the manager and she wouldn't see me….I was saying' we don't even have fifty dollars for food, we have nothing'. It was like 'I'm sorry that's all we can do'.*

For this family, the consequences of being refused assistance meant borrowing money for food and petrol from a local money-lender at 25% interest.

The findings here confirm McGurk's (1999) evidence regarding Work and Income staff not informing clients of their entitlements or discouraging applications. One woman said that she had had to: *"educate Work and Income staff about her entitlements"*.

On several occasions discouragement also took the form of some rude treatment towards customers by Work and Income staff. One woman who had applied for a food grant described her experience in the following terms:

> *He told me I wasn't entitled to a food grant because I'd never named the father of my youngest child…I rang our local MPs office, they told me I was [entitled]. I went [back] in for an appointment to see him, he whistled for me to come, so I sat there. He came and got me and said 'I was calling for you to come'. I said 'I'm not a dog, I have two legs not four!'*

Three quarters of families had debts to Work and Income through Recoverable Special Needs Grants, Benefit Advances or overpayments of benefits, the latter mainly being through administrative errors: *"This one [debt] occurred from just the beginning of the year, they [Work and Income] reckon. They overpaid me on a benefit somehow. I not sure how they did it, but now I have to pay it back".* Other debts were for items such as car seats, washing machines, fridges and in one case a pump, to keep a woman breathing at night. Family debts to Work and Income ranged from $490.00 to $2,734.00. Even more concerning was the undue hardship being imposed on families with two of these repaying Work and Income debts at $40.00 per week. This is the maximum that Work and Income are allowed to recover at.[12] Where hardship exists, Work and Income are meant to reduce prepayments to the normal minimum.[13]

The two participants attempting to make the transition from social assistance to paid employment as their main source of income found Work and Income's benefit abatement system unfair and discouraging for people trying to make this transition:

> *When you are on the benefit, you have to pay secondary tax, so therefore you work your backside off for x amount of dollars and then you get penalised for it. Sometimes you would be better off staying at home……and getting a Special Benefit or some top up [as a means of reducing hardship].*

Extremely concerning was the way in which the benefit abatement regulations impacted on one of the women and her family. She found part time, casual work as a relieving caregiver in pre-schools in her area. However, despite having told her case manager at Work and Income that she wished to have her benefit abatements calculated on an annual basis, the case manager insisted on weekly abatements[14]:

> *My case manager knew at the time that I was not happy and I asked her why we could not wait until the beginning of the year. Basically her answer was I'm the boss, I decide what is what and how I'm doing it.*

Even worse was that her fortnightly earnings were entered as weekly earnings: "*She won't show me my files…..She's claiming I received $246.00 per week. Should be so lucky! That was a fortnight's pay".* This abatement procedure put this household under financial hardship, both because of its excessiveness (in terms of amounts abated and that this was done on a weekly basis) and the uncertainty of income it created:

> *It's made it really hard and really stressful. They (Work and Income) keep telling me to learn to budget….Then I juggle my rent payment…..I am behind in my rent by over a week….I have been into Work and Income for two food grants in the*

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[12] This maximum can be exceeded if there is specific permission from the beneficiary

[13] For recoverable SNG's the normal minimum is $4.00 per week, For Advances the normal minimum is no more than the amount that will pay off the advance in 24 months, For debt (e.g. overpayments) the normal minimum is subject to the person's ability to pay.

[14] For beneficiaries on the DPB, income is assessed annually unless the beneficiary requests in writing that there is a weekly assessment of income. DPB recipients are allowed to earn up to $4160.00 per annum before their benefit is abated. This suits many DPB recipients undertaking part time work as this tends to be casual and irregular, often not reaching the threshold. Annual abatements then, give some certainty of a minimum weekly income (i.e. the rate of the benefit which the person is receiving).

last seven months….and when I tell them the reason why [the inaccurate application of abatement regulations]..no one is willing to listen.

1.8 Department for Courts

The majority of those interviewed had debts to the courts that they were repaying on a regular basis. Significantly, findings revealed that poverty in itself exposes people to greater risk of law infringement either through their own inability to meet legal requirements or via their connections to others with similar resource issues. One family who sold their car was paying court fines incurred by the purchaser. This was because, as the purchaser had been unable to pay the full amount, it had been verbally agreed that as the vendors, they would retain the ownership papers until full payment had been made. It was agreed that the purchaser would take possession of the car while he was paying it off. However, before the full payment was made and legal ownership changed, the purchaser ran up significant fines for which the interviewee was legally responsible. In other cases, court fines were incurred through a combination of poverty and unfortunate circumstances such as illness or family bereavement. For one family, the accumulation of debt through already unfortunate circumstances was rapidly accelerated when their son died. One of the debts they incurred at this time was a fine for forgetting to pay their road tax in the days following their son's sudden death. However, negotiating affordable repayments with the Department for Courts proved difficult:

> *I've got a fine pending from the day of my son's funeral, because of all the travelling up and down. We let our road tax lapse, we didn't even know it had, and that's nearly a $500 fine, even though we got it the next week and we explained the situation. Well they want it take it out at $15.00 per week, but I'm trying to fight to take it out at $5.00*

Repayment rates for interviewees to the Department for Courts ranged from $10.00 - $33.00 per week. This latter amount was for one woman on a DPB who reported already making re-payments to Work and Income for overpayments and advances on her benefit. Participants' commonly experienced the Court's enforcement of the law as inflexible, causing undue financial hardship. One's woman's story reflected the day to day realities of such hardship unnecessarily inflicted on families:

> *I have to make weekly payments on the power, 'cause we had a disconnection notice on our power. I took that in to Work and Work and Income, they said that we don't qualify to get a grant to pay it….I just rang the power company and begged them if they could just, [take] whatever I can put in a week. So they have given me until this Friday to pay up at least half of what I owe them….Well, last week when I got Family Support I put in $50.00 and I was hoping that I could put another $50.00 on top last Thursday. I couldn't even do that. [So] I rang the*

Court fines and asked them if they could reduce the payments to $5.00 per week or something – they wouldn't. I had to go and make a payment of $20.00 at the Court House before they put an extra $100.00 automatically on the fine… [They said] $20.00 was the [lower] limit…..I went last week… after the rent and the car payments last week we had $50.00 left. I had to put $20.00 petrol in and then I was left with $30.00. Didn't know what to do, so I rang the Court fines 'cause we owe them $20.00 per week, tried to reduce it, they said no. I went and paid the $20.00 there.

However, the consequences of meeting this payment involved other costs:

[But] my daughter needs her shoes for school, they need lunch, they need food, so what am I supposed to do. Yeah, it is just tragic.

1.9 Debts to Utilities

Research results in this study indicate that privatisation of essential services such as telephone and electricity and subsequent rising costs in these areas have contributed to dynamics of debt and poverty for low-income families. Four of the eight families interviewed had discontinued standard household telecommunication services, either because they had got into arrears with payments or simply felt they could not afford to. All of these households had young children. Two of these families partially dealt with this lack of essential communication through having mobile phones for receiving incoming calls.

Payment of electricity bills was an issue for participating families, who used various strategies to conserve electricity. Two families reported significant arrears to power companies. Disconnection from power services, or threat of this, had been experienced by the majority of participants:

I have to make weekly payment on the power cause we had a disconnection notice on our power. I took that into Work and Income and they said that we don't qualify to get a grant to pay it….I just rang the power company and begged them, if just whatever I can put in a week. So they have given me until this Friday to pay at least half of what we owe them

Most families in the study used a "power card"[15]. For some families use of a power card was a condition of access to electricity by the provider due to their history of debt with power providers. While for participants accessing power services through this method meant they avoided being in arrears to power companies, it also meant

[15] A power card refers to a pre-paid system in wherein the consumer buys a card from the electricity company that allows them to use x number of dollars of power through inserting this in the household meter.

they cut back, or, in several cases, did without essentials such as heating. For most families this was problematic:

I was in and out of hospital, because one of the twins got bronchitis, so it was very cold [in the house].

Utility debts were not as high for families as might have been expected from previous studies. However, findings suggest that the issue of access to adequate levels of electricity (and the debt that can accompany this for low income households) was partially obscured through the use of power cards by five of the eight participating families. This is because power cards are designed by power providers with the intention of avoiding bad debts. However, they do not ensure that people are able to access sufficient electricity for everyday purposes.

2. Situational Factors

The budgeting was working, [then] tragedy comes into your life, my daughter gets pregnant {and develops bipolar disorder}, my husband dies.

Situational factors contributed significantly to debt levels of already economically vulnerable families. These factors were invariably linked to some form of sudden change or loss such as death, illness or unemployment. Other forms of change such as the birth of a child, people forming new partnerships or separating produced unanticipated effects. All interviewees reported having experienced at least one such event, others multiple. The debt levels of interviewees who had experienced a series of such events were much worse than those who reported one or more of these happenings.

2.1 Death

Three households had had family deaths. One woman described how the sudden death of her son had tipped the scales in an already financially precarious situation:

And that's really all it took – having a few extra expenses, namely the funeral and all the travelling and things, and like the phone being cut off because of the toll calls, because everyone I dealt with was in Wellington, that just tipped it right over the edge and made it unmanageable

Of course she had to attend to the immediacies of her son's burial:

There should be more relief for funerals……Because its at a time when you have to [spend the money]. I couldn't have said to the funeral home in hindsight 'look I can't afford it at the moment, can you hang onto him for a couple of months and when I can afford it, we'll do it. You know it has to be done, so there's no choice in it).

An already indebted participant was forced to get a second loan from a money-lender to finance her husband's funeral:

> *I had already taken a loan, but I had to go and get another one, because my husband died. I said 'I need a loan, my husband died and we have no way to feed the people that come into my house'. We held his body for the people to come. So I am behind in that [loan] and I am behind in the funeral expenses.*

2.2 Illness / Disability

One interviewee spoke of trying to care for the children of her daughter who developed schizophrenia with the birth of each child:

> *Oh stresses would happen. Like my daughter got pregnant and I had a grand daughter that was coming and my daughter wasn't well and all my resources were focused on her…she ends up in a ward and the babies keep coming to me because she can't cope with them.*

For some illness and ongoing disability was a barrier to gaining employment: *"He might be able to work if this….goes away. But if it is still here, [he] can't go to work".* Illness was evident in compounding the problems of people with already few resources. One young woman whose twins were born prematurely and often in and out of Auckland Hospital described her experiences of borrowing a car from a friend to get there:

> *I got a fine of $400 for parking. [The] car wasn't registered and warranted. I knew that, but I needed to get up to the hospital because my kids are far more important…At the time I didn't have a car and I needed to go up and see my twins.*

Particularly significant for some families were the ongoing costs of disability as described by one woman:

> *Two of them [my children] have got ADHD, they're hyperactive. And the other one has dyslexia. They are meant to be on homeopathic [medicine], not to fix it, but because it alleviates their symptoms. But we can't afford it. Plus the type and quality of food they eat [is expensive], because they are hyperactive, they eat a lot and burn a lot of food off…..I'd rather have them eat something than nothing at all, but I'd rather be able to buy better quality food that might affect their learning behaviour better.*

However, as with other families in the study, accessing the appropriate level of income support proved difficult:

> *They literally wanted a breakdown of {my children's appointment} with the senior psychologist {for managing their ADHD symptoms}…..Well they basically didn't believe I was going, even though the Senior Psychologist had written a letter,*

they went behind my back….and asked for her to give a record of how many times we'd been that year and she was pedantic and said 'I'll do it under the Official Information Act and you can wait 21 days. And then they decided they didn't need it, but she {the psychologist} said she'd never had that problem before. I had always legitimately taken my children there, it wasn't a thing to get extra money…it was their ADHD and the support was huge, she's like a friend to them now and they trust her. It was humiliating. The fact is, I meet the criteria, I got a letter and that should be enough.

2.3 Changes in Family Membership

Changes to family membership played a significant role in increasing debt levels. Separation from male partners exposed the majority of participants to a day to day existence of living in poverty (and often debt) - for some this was over many years. Sometimes, left with significant debts, these separations also meant that participants had to juggle the demands of raising children with bread-winning, either via employment or as advocates for their families with government departments such as Work and Income.

In two cases, entry or re-entry into the family of a partner also increased family debt levels. For example:

I was on the DPB and working, I always had two jobs when I lived in Wellington, and then I met my partner, but his income wasn't enough to support all of us, so we went on a community wage thinking it will help us . [But] it didn't. So we left Wellington. We sold our dear house to get one cheaper…but we only had $30 more than I would have had without having him. We bought this house and then everything went wrong….. [before this] I've never had a bad debt.

3. Personal Resources

On the whole families were very resourceful in managing their circumstances. Personal resourcefulness was demonstrated in actions such as only ever buying second hand clothes and remodelling them, growing vegetables or learning about the credit market. People brought a range of attributes and personal resources to managing their situation. Key resources that had some bearing on participant's abilities to manage their circumstances were: level of education and general knowledge, knowledge of finances and the credit market, personal beliefs and attitudes, personal health and family & social networks. These resources are significant, not so much for the role they have in influencing poverty and debt dynamics, which is modest, but more because these are families main means of negotiating the situational and structural factors that shape their situations.

3.1 Education, General Knowledge and Understanding of the Credit Market

Findings suggest that education plays a role in determining people's ability to manage debt as it is linked to other factors such as literacy, general knowledge, an understanding of how the credit market works and the consequences of borrowing from different sources. The highest educational qualification held was an undergraduate diploma. In at least five of the eight families formal education had for one reason or another ceased at around fourteen or fifteen years of age. Interestingly, the four families using exclusively second tier credit options fell into this category, as did interviewees who seemingly had not made the connection between particular decisions taken and the consequences of these. Results also indicate a level of personal dis-empowerment evident in the younger, less educated interviewees regarding their acceptance of debt passed on by others. Stories include having to pay large toll bills rung up by flat mates and being left to pay debts run up by relatives via possession of a participant's bankcard. Difficult to disentangle is the issue of self-esteem, which also appears to be implicated in these situations and is linked to factors such as education and general knowledge.

Both families who saw some "light at the end of the tunnel" regarding making their way out of debt had reasonable knowledge of the credit system. One woman had grown up in a family who had used credit unions to finance their loans and she also did this quite successfully, borrowing from this source to pay for rates and household appliances on occasions. Access to the credit union had also been contingent on her ability to borrow against what she had saved and paying back the money regularly, which she did at times with the assistance of her parents. It is significant that as a woman on a low-income and in debt, the successful use of this resource was partially reliant on the assistance of her parents. The other interviewee who had made progress in making her way out of debt, spoke of how she'd become *"money wise"* and had successfully presented a proposal for a loan to a mainstream credit institution.

3.2 Personal Well-Being: Attitudes, Beliefs and Personal Power

Aside from physical health factors, which undermined the ability of three families to negotiate their way through debt and poverty problems, also relevant was people's sense of control over their lives and the attitudes they brought to bear upon their circumstances. Having a sense of control was potentially a key resource for people in managing day to day life. Some participants were very pro-active in maintaining and/or creating a sense of control, such as taking the initiative in contacting creditors to re-negotiate payments, while other interviewees, for whatever reason did not display such behaviours or attitudes. These differences were apparent from individual to individual within families:

> *Everyday, I pick him up from work. Like I could go there in a good mood, because I have rung up one of our creditors and asked them, 'we can't afford it this week' and just from them saying 'yes', puts me in a good mood and then I will go and pick x up and as soon as he hops in the car, he is grouchy.*

Findings did however show that "sense of control", was difficult for most to maintain, tending to be structured by circumstances:

> *Depression, I suppose and things like that [contributed to the debt]. I just got sick and tired of trying. I had five children, it was difficult to cope. The booze and the drugs didn't make it any different, but to me the drugs and the alcohol made things mellow or just stopped the pain or whatever. But is didn't stop the debts from coming in.*

In cases where it was justified, interviewees also displayed a level of willingness to take an appropriate level of responsibility for how they came to be in debt. One woman explained that she had partly got into debt by:

> *….not caring and booking things up. Wanting the house to look really good and I can't really afford to put it on the hire purchase…..It was all right for a while, but then the drinking got more,……drugs got more…..just didn't care after that.*

Another indicated that her debt levels had begun to decrease, once she had taken some responsibility for her situation:

> *I hit the bottom and got very scared……It was just a change of attitude, I was 27 or 28 and had to keep getting mum or dad to be the guarantor, or get credit in their name. I was establishing nothing…..and I just thought, I'm an adult now, I've chosen this path, I've got to do it, and I did. It took a long time, but I did it.*

However, as evidenced in the discussion below on cutting back expenditure, "taking responsibility" led to considerable deprivation for this woman and her child.

3.3 Family Resources and Social Networks

Assistance from family and friends commonly included childcare, loans, assistance with managing debts (in the case of younger participants) and other practical help such as transport or cooked meals. As indicated earlier, people's access to family assistance and other forms of social support were key in resourcing them to negotiate difficult circumstances:

> *I've got a friend that if I need $30.00 or $50.00, he will give it to me. It is non-repayable. It is one of those 'you'll be right babe'. The thing is, when I do need it,*

> *it is really, really important. Like I might need $20.00 - $10.00 for the power and $10.00 to put petrol in the car.*
>
> *They [parents] were really good. My dad used to buy me groceries once a week up to $50.00. That was four and a half, five years he did that……He would come up on a Saturday night for tea and bring the food and I would cook it and then each Sunday night I would go there for a meal- he did so much.*

Generally those with good family and social support did better than those who had less, as indicated by debt levels, the direction these were taking and how they felt about their lives. Worse off, in terms of managing on a day to day basis were those also in the position of providing shelter and other forms of support for extended family who also had few resources to draw upon.

> *We have got this and this to pay and then at the end of the week we have nothing to eat. We have to go running round everywhere looking for food. Even to my sisters and she is on her own and she don't get much….. [and] what ever I take off her, I know her and her children will be short.*

4. Debt Management Strategies

Poverty management strategies employed by families fell into the three categories identified by Kempson et al (1994) and summarised above. These were: (1) cutting back on expenditure, (2) continuing to live on credit, attempting to juggle repayments and/or re-financing existing debt, either through renegotiation of loan terms or debt consolidation, (3) and seeking to increase income. These strategies were by no means mutually exclusive – rather families commonly employed a combination of the three.

4.1 Cutting Back

Cutting back on expenditure tended to be the most immediate strategy used by people in an attempt to manage their lack of income and rising debt levels. "Cutting back" often meant decreased expenditure on food, clothing, heating and other necessities for families. It also included decisions such as to wash by hand rather than go to the launderette, not going out and generally ceasing spending on social and learning activities for children and adults. Cutting back included some extreme measures such as one woman's decision to grocery shop once a month because it was "cheaper". When asked how she had coped her reply was:

"Being frugal. I don't waste electricity, I don't waste food, I recycle things. When my children were little I turned old clothes into new clothes. I would buy second-hand ones and remodel them.

A combination of strategies was evident in one woman's reply:

Just leaving things out. That is the way I did survive……I am a smoker, but I would rather leave out things like my smoking for my kids. I would exchange things that I would really want to have to give for my kids…I would leave out food, cigarettes. ***.*** *Sometimes I would miss a couple of car payments and that would be it.*

For some the decision to decrease expenditure meant a change in their spending habits:

Now when I'm out, 'it's not do I want it?, its do I need it?' cause I was a want person, now it's do we need that, how's it going to benefit our lives if we have it…so I've changed from a want to a need….

As with most interviewees this person had also used budgeting advice to assist her in cutting back:

The cat was dying and I couldn't afford to get him treated, so I had to get him put down, it just gutted my son and me and I thought I can't do this…..[so] a friend did my budget. It was very harsh. I controlled it, but she monitored everything. I had to ring Farmers because I owned them $2,000. I rang Farmers and arranged a payment plan and I broke my card up while I was on the phone to them and my friend sitting there saying 'do it or I don't help'. ….For three and a half years she would actually take certain amounts of money off me and keep it at her place – then when the bills came in…she would call in when it was pay day and say 'right, now you need to give me the money for your power and phone.

The deprivation resulting from this is discussed further below.

4.2 Using Credit

All of those interviewed used credit to some extent or another to sustain the costs of daily living. However, this use of credit was different from the majority of the population in that participants were often incurring interest at high levels and unable to meet repayments. One family who had credit card debts of $23,000.00 described the use of credit to fund their daily living expenses:

I'd pay all the bills that I could with the money and then more often than not food and diesel,, mainly food and diesel, we put on the credit cards….and once a month when the car payment and the mortgage came out the same week……I get cash from the Visas to pay my power, phone or what ever is due……hoping that each month it would get better and then we'd be able to pay it back.

In several families, borrowing money to pay for essentials extended to second tier (and very expensive) forms of credit:

I pawned my stereo off. I pawned it off because I ran out of power and nappies. At that time I didn't have enough money that week, so I went to the pawnshop and pawned off my stereo

We pawned our T.V. [for a loan of $250] to make up a payment of arrears on the car. My husband kept up the payments of the interest because he really wanted it out for the kids and then when we got back together, I told him, no we can't afford it, we have to let it go. He and the kids were sad.

I had to pawn the T.V. off. I had no other way of getting food for my kids so I ended up flinging it off…..It was horrible at the time, but I had to do it for my kids sake

Use of credit always involved dealing with creditors and juggling debts:

Well, I am really seriously thinking of whether we are going to pay the rent this week or not, because there are too many other things that I have to do and so if I miss out this week as well, that will go up to $1,500.00.

Such decision-making invariably involved prioritising debts – the consequences of "not paying" tended to be the prime consideration:

That is the only way that I know how, like that $480 that we owe there, we have to put $80.00 on it before it goes up, the Court fine, I have to pay $20.00 there before they add $200.00 on top of that.

This often pre-occupied peoples time and energy, particularly as lack of income meant they were unable to make regular or automatic payments, often having to visit creditors in person:

We don't even have petrol and yet we have to run…. when I have the car [I'm] just going around trying to keep up…..So Thursday's [pay day] you would hardly catch me at home on a Thursday. That is all I do, just go around [seeing the creditors]….Mainly you will probably find me at the phone box most of the time 'cause I am ringing saying, 'oh look I can't afford…'. I have got to know the people at the petrol station over there so well. This past two months I have been at their phone box five or ten times a week. Yes I have spent more time in that phone box these past few months than I am doing something useful

Another consequence of this strategy was the experience of harassment by creditors:

I never want to be in the position of answering the phone and having people who don't even know me, having to tell them the most intimate details about my son's death or my family situation and say "I'm a criminal" when I've said 'I will pay you, but I' can't tell you when'. And I don't ever want to be in that position again.

Some lived in fear of the consequences of debt. As one woman explained: *"If they write me to pay the arrears of $1,000 and something and I'm very upset because I don't know how to pay this amount in full. If they send me a letter, I am very upset".* On hearing this, her husband responded: *"When I see the letter, I see the policeman coming to arrest me".*

4.3 *Debt Consolidation*

Debt consolidation was viewed by participants as a viable strategy for managing debt. Two of the eight families who had access to mainstream forms of credit at some stage did successfully utilise this strategy. For others, the opportunity to do this was clearly named as an aspiration:

> *Someone giving me 6,000, I would be out of debt without a problem and I would pay that one person. If I could get $6,000 instead of owing all those five over there, and I would pay one person one amount without having to do seven different payments. One payment, even $100.00 or $150.00 per week, I would consider that.*

4.4 Increasing Income

While all families interviewed wanted to increase their income via employment this strategy was the least used because of the barriers to employment described previously. As one woman said:

> *When I get the chance like if my brother comes over to visit, I leave him here and I go and ask around for work. See if I can get a fulltime night job. That is our option. I can't work daytime because I have got the kids and x works daytime so I would rather look for a night job and therefore we are gonna have one or the other at home with the kids.*

The other means of increasing income this distraught couple was considering was to separate as life had previously been financially manageable when they were apart:

> *We have seriously thought about separating again, because when I was on my own here, I was paying the rent, but if we do that we will muck everything up again, so we thought we will just try and deal with it the best we can.*

4.5 The Financial Results for Families

The pathway of spiralling debt that eventuated for most families resulted from the interaction of structural, situational and personal factors combined with the particular strategies they employed to manage the situation. However, all families interviewed agreed that the major cause of their indebtedness was living on a low-income for a period of time. Living "hand to mouth" meant that over a period of time, people eventually fell into debt, unable to meet payments for anything extra or the unexpected. One woman engaged in full time employment, described her experience of this in the following terms:

I was pretty [much] on the same level for a while, but then I started slipping, because I couldn't make enough money, then it is slowly slipping and debts are coming higher than my income…..it was just trying to live, even then I was still slipping.

While it was the dynamic interaction of factors in their totality that structured people's choices of poverty management strategies and families' debt pathways, by far the most influential were the structural factors. The organisation of the credit market, people's exclusion from mainstream credit, the asymmetry between the organisation of the labour market and what children need by way of financial support, care and attention and the relentless pursuit of debt by government departments were the most significant considerations shaping the nature and experience of debt. Also influential were the situational factors that people encountered, particularly the unexpected ones. Personal resources played a role, but less so, relative to these other factors.

Six of the eight families had been unable to find a way to leverage themselves out of debt. This is unsurprising given the combination of factors that structured rising debt levels. Without exception, each of these families experienced sudden, unexpected and often traumatic events that effectively plunged them into debt from what had already been a precarious and downwardly mobile situation.

At the time of the interviews the two remaining families were managing to make their way out of debt. One participant had accumulated significant debt arrears in the past and through a programme of very strict budgeting and negotiating with creditors was now managing to get out slowly out of debt. However, as cited earlier, this is being seriously undermined through a significant loss of income due to benefit abatement. The other interviewee (family one) had debts, but also had assets. Having lived on a low-income for 20 years, her strategy had been to cut back on expenditure, implementing extreme measures at significant costs to herself and her children. Now she was in a position to very slowly build up equity in her assets.

Apparent in the stories of both women was their strategic intent behind their actions. When one woman hit "rock bottom", she had cut back on expenditure with a friend's budgeting assistance and financial help from her father who had given her money on a regular basis to meet the cost of weekly out-goings. That way she *"re-established a line of credit"* and reduced her debt repayments by consolidating them under a bank loan. The other interviewee who had never been in debt arrears had gradually improved her situation through years of impoverished living, financial assistance from her family in the form of loans and some access to mainstream credit institutions. Speaking of her circumstances she said:

> *My mortgage is so much more. So in a sense it has got worse, but it has got worse for a reason. There is calculation behind it, it is not because I have not thought about it.*

Aside from Ethnicity, (both women were Pakeha), these participants had the same structural disadvantages as other interviewees – insufficient income, exclusion from the labour market – and, as women, both had been subject to various gender inequities. However both had the smallest number of dependent children, with one having just one teenager still at home. Also, noteworthy, is that they had not been excluded from the credit market to the same extent other interviewees had been, simply because they had not incurred the same levels of debt arrears. Several critical differences in the situational and personal factors of these women were apparent. While both had experienced very difficult circumstances (including the first child of one being the result of rape, and discrimination as single mothers), neither had been subject to recent undermining situational factors to the extent that other participants had. For example, neither had faced recent unemployment, illness or death. Both had had consistent family support, financially and in other practical ways. These differences are important as they partially explain why some people on low-incomes may be able to reverse a downward path of increasing debts or avoid debt arrears in the first place.

5. Pathways to Despair: the Consequences of Debt & Poverty Management Strategies

The debt management strategies have had adverse affects for all families interviewed, regardless of financial outcome. The impacts for families of these strategies fell into five categories: individual well-being, undermining effects on relationships, physical deprivation, reduced social participation and negative impacts on childhood development.

5.1 Individual Well-Being

Pre-occupation with juggling debt and living from hand to mouth means that it is difficult for people to engage in future planning regarding their life:

> *I haven't really thought about my future actually. I live day to day. I just take what is going to happen today, tomorrow, that sort of thing*

I remember waking up in the morning and saying right I have got today to get through and climbing into bed at night and saying cool I have made it and that is true. I was like that for years and no goals in life. My goal was to survive each day

Evident in one woman's comments was the precariousness of living with debt:

It [Debt] was like a rope round my neck waiting for me to jump off

All participants discussed the negative impacts of debt on their well-being. Among comments were:

Without debts we are very happy. But from now on we are very stressed, [we] didn't pay off our loans and hire purchase and so on. Without this one, no stress, but from now on we still have stress, you know. If you have lots of payments then you have lots of stress aye?

It's been a bloody hard slog. Generally though I think it has impacted on me mentally and emotionally in a sense because we always have to think about it….Even going to town and having a cup of tea with a friend, I feel so guilty about spending that money on a cup of coffee when it could be buying food or whatever

[Having debts has made it] harder. A lot harder. Especially when you have got kids, there is a lot of people out there with kids, but when you are young and single and have three kids and wished you had a partner but didn't and trying to support them and look after yourself, it is hard…..I would [get] so angry because I would think that it was my fault……

This situation also undermined people's self-esteem:

[It is] making me ill on stress. It got me a little bit upset thinking about that I have to pay it all back…… Yeah. It makes me want to feel that I shouldn't be around.

Depression was a common response to debt:

For me, as you can see, I can't be bothered watering my plants anymore…..I am the one that is hiding and keeping it inside…..Now, I can't…I used to be able to hold my tears back, now when even I go to the budgeting service, they will just ask something and I will just… [start crying]……In the morning I don't really feel like getting up……Especially when there is not much food.

5.2 Impacts of Debt on Relationships

These stresses undermined people's relationships with other family members:

[Debt] causes me a lot of stress…. Relationship wise I guess I tend to argue, it causes arguments [about money] and stuff…….

[At times] I am angry with my husband or angry with the kids, but without this [debt], the family are all happy and I still want the best things for the kids. So, from that time I am very stressed because when they ask me for something that they want and I said to them, oh, we have no money and also my husband, when

he needs something to buy, then I said to him, how can you do that when we have not enough money!

The kids live in a very stressful environment and they don't really understand why, and a lot of it is obviously because their brother died, but most of it is the stress of the money….I can't even think about grieving cause I've got to deal with the stress of paying all those bills.

Lack of food caused fighting between siblings:

They are starting to fight over food. They will see which plate is more and they will rush there and they end up fighting over it. Sometimes I send the boy to bed with no food, because, you know, he is older than the girl and he throws his weight around on her. That was a real down thing, because they have never done that before, fight over food.

For one woman, the impact of borrowing money was that it undermined her sense of equity with other family members:

I always felt like I was the poor relation….I just felt that once again they were having to bail me out of my crap…so I didn't feel like I had a right to voice my opinion, because I wasn't really paying my way, they were helping.

Particularly disturbing was the impact that poverty and accompanying debt management strategies tended to have on adults' relationships with children:

It is just a bit hard. He is a person that wants to do everything right but he is finding it really hard and it is taking a toll on the kids. Even my little 5 year old is like, oh, daddy is coming home from Work and he is going to be grouchy……If he is angry or depressed or anything it shows on his face. They just look at him and they see that he is grumpy… and they will say, 'don't be too noisy or dad is going to get angry', or, 'come on lets go to bed now'.

Reflecting on recent events this interviewee described her husband's reaction to their daughters fifth birthday:

I think he has just lost interest. Like, on our daughter's birthday last Saturday, he just didn't want to come out of the room…. He just didn't want to come out of the bedroom. …….The kids were singing happy birthday to her and she was asking us for a present… 'have I got a present mum?' and like I was saying 'no', but you know kids, they keep on asking and asking and I started getting frustrated…..

Trying to make the day special for her five year old:

I went in the bedroom and I asked him to just come out and play a few games with them and he just couldn't be bothered and he said, 'I can't even afford to get her new shoes for school. She is going to go to school and he can't even afford shoes…He is the one that is really hitting it.

5.3 Physical and Social Deprivation

The decision reported by all interviewees to cut back on expenditure resulted in physical and social deprivation for families. As noted above, for most families food, heating and clothing were the areas where people attempted to cut back already meagre budgets. Food deprivation hit growing children hard:

> *At times I wonder whether it is all worth it, especially when the kids are crying and they are hungry and that and it seems to be when there is not much food, they want to eat, eat, eat.*
>
> *In some ways I think my quality of life has gone down because I don't want to get back to where I was. My son's coming up ten and he eats like a horse and its'don't have this, don't have that', we only have a certain amount for food. My intolerance level is worse towards wastefulness of food.*

It was common for children to go without essential clothing items. For example, one five year old was going to school in the middle of winter with only jandals on her feet because the family could not afford shoes. Speaking more generally of the family's clothing situation, the mother said:

> *They are not really kids that ask for any sort of thing….Lately they have been asking too many times because I haven't been able to get it for them. My daughter is growing and she needs new underwear. It is little things and people look at it that you can get a pair of undies for $10.00, three or four for $10.00 or something and it is only $10.00 but I am like, $10.00! We don't have $10.00!*

Clothing shortages were made worse by inadequate heating in houses. Speaking from her unheated house, in the middle of winter an interviewee from another family said:

> *We do not have enough money to buy clothes and food for the kids…..yeah and also my baby. I really want to buy some stuff for him, some warm clothes, but I can't buy the warm clothes because they are too expensive*

Social deprivation as a result of cutting back also featured as an issue in families, particularly for children. So taken for granted was lack of social participation for families as a result of managing debt, that few mentioned this, until prompted. Even then, the issue was sometimes quickly passed over as if it was just a "given" that*: "No, there are no activities after school [the children] just come home and play".* Similarly another interviewee said*: There's no trips. We don't go anyway unless mum and dad decide to take us, like the Zoo*

Children, particularly young people often found the tight restrictions imposed on their socialising difficult:

> *If he wants to do his youth group or go on trips away and it is going to cost him money, then it is just, oh honey, you are going to have to wait to next time. That affects him. He gets quite depressed…..If he wants to go to the pictures, even though it is $5.00 on a Tuesday night, he still has to have a taxi fare home because I won't allow him to walk home….You know guys, they like to get out with their friends. Weekends he is usually home with me. Instead of going out with his friends and playing around, 'cause I am quite strict about where he goes*

and what he does, only because if we have no money I will not allow him to go out with no money. It is a safety thing for him

5.4 Impact on Children's Development

Issues of physical and social deprivation are particularly significant for the impact they have on childhood development. Fore example, sometimes not being able to afford the physical necessities of life meant that children missed out on their education:

> *None of them have jackets. My two oldest, on the days where…. cause it has been raining a lot so on the days that it is raining and we don't have petrol [to take them in the car]… I keep them home because they don't have jackets or umbrellas or anything*

Lack of access to educational resources such as books and toys in homes and inability to attend extra-curricular activities are significant as they deprive children of the opportunities to develop aspects of themselves and meet developmental needs otherwise not being met through the school curriculum:

> *He doesn't do soccer, he doesn't do anything now…that's basically because of income…He wants to do Karate and even though I don't drive, we could get him there, but it's the cost of it. He needs to do something for his self-esteem, he has lows, he gets picked on in the school bus and we wants to do something that's gonna give him inner strength…*

Alice's Story

Alice and her teenage son, both of European ethnicity, live in their own home. Alice works part time (20 hours per week) and receives an abated rate of the DPB. She wants to increase her hours of work to get off the DPB entirely. Alice has 5 children and has lived in significant hardship while raising her children on her own.

Alice has been in paid employment at different times but she found that she only earned $10 – $12 more than she would have got with the DPB as the sole source of income, because of the abatement regime and childcare costs. Not only did paid employment not increase her income significantly, it also made her feel that she was unavailable to her children.

Alice is aware of the negative impact on her children of being on a low income for such a sustained period of time. For her oldest child in particular, who had learning difficulties, she feels that she was not able to support him with the extra resources and attention he needed. Recently he lived with her for a while because he was severely depressed. Now, at age 31, he has got his first job and she has noticed how positive this has been for him.

Alice has tried various strategies to increase her income. She recently had foreign students boarding with her. However she found that the costs of food and other household items used by her boarders meant that she did not make money.

She has also engaged in tertiary study and has nearly completed her BA. This has actually increased her hardship as Work and Income stopped contributing to expenses and she took out a student loan, which is now being taken off her earnings. She has gained a scholarship from a community agency but this does not cover all of her costs.

Alice owned a house in a rural area and had paid off a substantial amount of the mortgage. It was originally a Housing Corp mortgage at a low interest rate which was then purchased by the ANZ Bank. She decided to shift into the city to be able to engage in tertiary education and find work. She approached the ANZ bank to investigate remortgaging her house. The bank agreed to this and she borrowed more money and purchased a house in the city. What she did not understand was that the existing mortgage that she had would be bought under the new arrangement and a higher rate of interest would be charged.

She estimates that this has added another $20,000 to what she has to pay for her first house. If she had understood this she would never have taken this option as it has added so significantly to her indebtedness.

At the time of the interview she had not been able to rent out her first house for a period of time, which meant that she was paying the mortgage on both houses with no rent to offset this.

Alice has used her credit card to buy food and petrol, but her strategy for the most part is to severely limit expenditure. Alice makes small regular weekly repayments on all her debts.

6. Looking for a Way Out (Of Debt)

Despite their difficulties, participants were able on the whole to hold aspirations for their own futures and those of their families. Generally, these aspirations tended to be easily realisable given people were provided with the right conditions:

> *Have a job that is able to provide for my needs. I want to be comfortable but not where I can just go and buy whatever*
>
> *I wish I don't struggle. I just want to get to the point where I can finally feel that I have made it. I don't have to struggle anymore. I have made it. I want to get there….Happy, free. Just relaxing. [I would want for my kids] exactly what I want for me, happiness, freedom for them, be able to get what they want in life*
>
> *I'd like to be able to have this baby and not have any stress, and be able to grieve over my son……and be able to talk with my children about all the good memories they had with him, and keep his memory alive rather than having so much stress that I shut myself in a room trying to work out how we can budget the next week's money before we get the debt collectors on our door again*
>
> *I just want to be bill free, just want to sit at home and not worry about which bill I am going to pay next week and which I am not and not have to worry about where I am going to get food for my children. That is all I want. That is all I have ever… ever since I have been an adult that is all I have really cared about. Just a roof over my head.*
>
> *'My own house, my own car, savings and investments and [that the kids] are safe, happy'*

E. Conclusion

This research had highlighted previously unarticulated issues regarding the nature of poverty and debt dynamics for New Zealand families. Some of these bear similarity to international experiences, whilst others are situationally unique to this country.

Certainly the results affirm international studies (Bird, 1999, Ford, 1991; Manning, 2000) regarding the heavy burden of debt borne by low-income groups. The daily consequences of high proportions of debt relative to income are very profound indeed. For the families interviewed it meant that substantial parts of weekly income were spent servicing depreciable debts, more often than not for goods already consumed such as food, petrol or clothing. The consequences of servicing the levels of debt reported by these participants are financially unsustainable and have disastrous effects on these families' health and well being.

Existing New Zealand studies have tended to minimize the significance of these disproportionate levels of debt for low-income groups, almost by default. This is partly because existing material relates to the population as a whole and is not specifically concerned with these population sectors. For example, the most recent and probably most comprehensive report (Statistics New Zealand, 2002 388) regarding New Zealanders' assets and debts, merely stated that credit card and hire purchase debts accounted for 3% and 1% of the total value of personal debt respectively, thus tending to obscure the issues of relativity for the low-income groups commonly using these forms of credit.

The research has illuminated three categories of factors (structural, situational and personal) and the ways in which these interact to produce particular debt pathways for participating families. The most significant factors in shaping debt and poverty dynamics are clearly structural – namely income, family structure, access to employment and affordable childcare, gender, ethnicity, access to the credit market and organisational responses to debt recovery. Situational and often, unexpected events such as illness, death and unemployment were shown to have a marked influence on these dynamics. Least influential, although still relevant were the personal resources that people brought to bear on their situations such as family assistance, education levels, general knowledge, attitudes and beliefs.

The slow (and painful) progress of two participating families making their way out of debt highlight the significance of the nature and extent of constraining structural, situational and personal factors on debt and poverty dynamics. Consistent family financial resourcing and social support and the lack of undermining situational factors *relative to other participants* were apparent in shaping a context that allowed the possibility of debt reduction. These differences are important as they partially explain why some people on low incomes may be able to reverse a downward path of increasing debts or avoid debt arrears in the first place.

In summary, the research findings demonstrate that the barriers to low income families getting out of debt are:

- Being in debt itself (due to the demands of repayments and reduced access to less expensive forms of credit)
- Lack of access to cheaper housing options
- Exclusion from the employment market due to:
    - lack of affordable and suitable childcare
    - lack of transport
    - lack of qualifications
- Lack of opportunities for people on benefits to maximise income through part time work (that still allows them to parent their children) through high benefit abatement rates
- Families not receiving benefit entitlements either through long periods of stand-down or lack of knowledge about full entitlements.

Regarding debt management strategies, the most preferred way forward for the participants was to increase income via employment. Realisation of this strategy was largely unobtainable for participants, however, due to the asymmetry of the labour market and what children need by way of financial support, care and attention. Sufficient educational qualifications and transport were also significant constraints to labour market entry. By far the more commonly employed strategies were to cut back on expenditure and to continue to use credit and juggle debts to get by week to week. These strategies were largely undertaken by participants, not because they provided the most ideal solutions, but because these factors are more readily modifiable by individuals, at least in the short term. The investigation demonstrates that both strategies are financially and socially unsustainable in the long term, undermining health and wellbeing, family relationships, social participation and children's development.

The present structure of the credit market means that low-income New Zealand families are often only able to access more expensive sources of credit, largely the unregulated backwaters of fringe lending, and are successively excluded from mainstream forms of credit as their situation worsens. In this sense the credit market in its present form serves to increase inequities between low income and higher income groups. At the individual level, some participants clearly lacked knowledge about the implications of using particular forms of credit, thus indicating the relevance of education about these issues. However, as results indicate, at the structural level low-income families must be provided with financially sustainable borrowing options that enable them to live fruitful lives and avoid the disastrous "mire" of debt without assets.

Findings also demonstrate that one of the "simple truths" of the matter is that some New Zealanders' incomes, regardless of whether through employment or social assistance, are simply "not enough". Present labour market conditions such as casualised, irregular and low-paid employment partially account for this, as does people on social assistance not receiving their full benefit entitlements from Work and Income New Zealand. Also evident in the results, is that people must be given opportunities for affordable housing. As reflected in other studies (Howden-Chapman, 2000), housing costs are clearly a key driver of poverty and debt.

The negative impacts of government policies such as decreased social assistance, the privatisation of previously publicly provided services and "user pays" are apparent in the findings. The burgeoning of recoverable loans and benefit advances (as a replacement for special benefits and non-recoverable grants) in recent years is a significant cause of families' spiralling debt levels. Six of the eight participating families were affected by these policies. Undue hardship for families was also caused by the Department of Courts, through imposing weekly repayment rates that already indebted families could ill afford. Results from this study show debts to these two government departments to be particularly problematic for low income groups. All but one of the participating families had debts to either department, and most had debts to both, with disastrous effects. That government departments are directly responsible for imposing hardship on these families is an indictment of our social policy system. However, amenability of these policies to change relative to others, offers a way forward regarding more immediate solutions to poverty and debt in New Zealand.

The study shows the impacts of the privatisation of essential services to be two-fold. Firstly, low-income families are vulnerable to having these essential services cut off through inability to pay. Secondly, the strategies introduced by private companies to avoid bad debts, such as pre-paid systems, mask the fact that many indebted and low-income New Zealand families are forced to go without essentials for health and well-being such as adequate electricity. The negative consequences for the families in this study of decreased levels of social assistance, privatisation of essential services and "user pays" demonstrate that the introduction of these policies represents a "false economy" for low-income families and New Zealand society.

Overall the findings show that New Zealand is faced with a significant social policy problem regarding the plight of low-income, indebted families in New Zealand. The use of consumer credit to get by from week to week has in part replaced the traditional "safety net" of social assistance. The unsustainability of the situation however, means that a large social and economic policy problem for the country is just waiting to happen. People will always experience unexpected and difficult circumstances, bringing whatever personal resources they have to bear on the situation. The more determining influence of structural factors on the dynamics of debt and poverty for New Zealand families however, indicates that some significant policy changes are needed to provide children (and adults) with contexts that support and nurture their development.

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G. APPENDIX A

<u>Dynamics of Debt and Poverty in Aoteaora/New Zealand Research Project</u>

1. Participant Information Sheet

Introduction

The New Zealand Council of Christian Social Services (NZCCSS) together with Massey University Albany is undertaking research on the impact of debt on low-income households. Part of this research involves talking with people like yourself about your experiences of managing on a low-income and how debt might also affect your life. We are hoping to be able to use this information to do some policy advocacy in the near future, so that people living on low-incomes can get on with their lives, less worried by debt.

Why is this study being done?
From the information we have, many people living on low-incomes find they don't have enough money to live on, and so have to borrow money to pay for basic necessities such as groceries, rent, clothes or things such as a new fridge or washing machine. This can cause a lot of stress for people and sometimes they get deeper and deeper into debt, just to "get by"! We know this from the number of people going to foodbanks who also have high debts that are making it very difficult to manage.

Who are we?
We are a team of researchers from the School of Social and Cultural Studies, Massey University Albany and the New Zealand Council of Christian Social Services (NZCCSS). NZCCSS is an umbrella organisation of church affiliated social service agencies throughout New Zealand. The research team consists of:
Dr Mike O'Brien and Dr Lewis Williams, Massey University Albany,
Ms Kerry Dalton and Mr Adrian Whale, NZCCSS.

Either Lewis Williams or Kerry Dalton will be the person interviewing you.

What is being asked of you?

We would like the opportunity to interview you, at a time and place that is convenient for you. The purpose of the interview would be to discuss the ways you manage on a low-income and how unpaid bills or debts might be affecting you and your family's life. We would like to talk with you about things such as: how you manage your money, the sorts of debts you might have, the impact of these on your life and what would help you to get out of debt. The interview will take approximately one and a half hours. We would also like to tape-record the interview, as this helps us to go back later and get the things that we have missed.

What will happen to the information?

After the interview, we will replay the tapes and transcribe these as necessary. (The transcriber will not know who you are and will have signed a confidentiality agreement). All tapes and written information will be kept in secure storage. From the information we collect, we will be writing a research report. If there is any information that is particularly sensitive we can discuss how to deal with this or whether or not to include it. We will send you a copy of the final research report. At the end of the research, all the information from the interviews will be destroyed.

Confidentiality and anonymity

The information that you give us will be kept confidential for the purposes of the research. This means that it will be used only for the research and no other purpose. We will also protect your anonymity. This means that, unless you agree otherwise, your name will not be used with the research findings.

Your rights

You have the right to:

- Decline to participate
- Decline to answer any particular question
- Withdraw from the study at anytime
- Ask any questions about the study at anytime during participation
- Provide information on the understanding your name will not be used unless you give written permission to any of the researchers
- Have access to a summary of the project findings when the research is completed

Who to contact if you have questions about the study

If you have further questions about the study at anytime, the contact people are:

Dr Lewis Williams, School of Social and Cultural Studies, Massey University Albany
Ph (09) 443-9700 and leave a message on Extension 9164 with the School Secretary Vicki Freeman.
Dr Mike O'Brien, Head of School, School of Social and Cultural Studies, Massey University Albany.
Ph (09) 443-9700 Ex 9161

You are under no obligation to participate, although your participation would certainly help this study. Thank you for taking the time to read this.

H. APPENDIX B

Dynamics of Debt and Poverty in Aoteaora/New Zealand Research Project

Consent form for participants

I have read the information sheet and have had details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I might ask further questions at anytime.

I understand that I have the right to withdraw from the study at any time and to decline to answer any particular questions.

I agree to provide information to the researchers on the understanding that my name will not be used without my permission.
(The information will only be used for this research and for publications arising from it).

I agree/do not agree to the interview being audio-taped.

I also understand that I have the right to ask for the audiotape to be turned off at anytime during the interview.

I agree to participate in the study under the conditions set out in the information sheet

Signed: ………………………………………………………………………..

Name: ………………………………………………………………………..

Date: ………………………………………………………………………..