

Lauren Tyler-Harwood  
University of Auckland  
2015

Q1) Wealth and Income Inequality

To what extent do you think policymakers should be concerned about growing wealth and income inequality here in New Zealand? What advice would you provide about policies that might help to address these issues in New Zealand, and what trade-offs might these policies involve for New Zealanders?

Over the past three decades rising inequality has become a feature of most of the world's developed nations. New Zealand is no exception and policymakers must urgently address this issue, not only on the grounds of equity, but also as higher levels of inequality impose social and economic costs on society. While Piketty suggests a global wealth tax, in the New Zealand context policymakers may do better to consider enhanced redistribution through a comprehensive capital gains tax coupled with policies geared towards improving participation, in particular of disadvantaged groups in society. While the main trade-off may be increased tax burdens, particularly for high-income households, improved accessibility to quality jobs and education is a necessary long-term investment. Such policies are paramount to improving equity in a way that also fosters sustainable growth.

Before considering why inequality matters, we must firstly confirm its existence and growth within New Zealand. As per the Treasury definitions, income inequality refers to the uneven distribution of household-income per adult equivalent, while wealth inequality refers to all net wealth, as opposed to just income.<sup>1</sup> For the purpose of this essay the term inequality, unless specified, refers to both wealth and income inequality. Both types have presented cause for concern over the past thirty years. As Perry describes, New Zealand experienced a “rapid and significant rise in income inequality from the late 1980s to the mid 1990s, taking New Zealand from well under the OECD average to well above.”<sup>2</sup> Income inequality appears to have remained constant or fallen slightly from the mid 1990s to 2013.<sup>3</sup> This can be seen in the Gini-coefficient for disposable income rising from 0.27 in the late 1980s to 0.33 by the mid 1990's<sup>4</sup>, before decreasing marginally to 0.32 by 2009.<sup>5</sup>

---

<sup>1</sup> Christopher Ball and John Creedy, “Inequality in New Zealand 1983/84 to 2013/14” (Working Paper 15/06, The Treasury, Wellington, 2015), 4.

<sup>2</sup> Bryan Perry, “Household incomes in New Zealand: Trends in Indicators of inequality and hardship 1982 to 2013” (Ministry of Social Development, Wellington, 2014), 17.

<sup>3</sup> Ball and Creedy, “Inequality in New Zealand 1983/84 to 2013/14,” 25.

<sup>4</sup> “Income Inequality,” *Statistics New Zealand*, accessed June 2, 2015, [http://www.stats.govt.nz/browse\\_for\\_stats/snapshots-of-nz/nz-progress-indicators/Home/Social/income-inequality.aspx](http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-progress-indicators/Home/Social/income-inequality.aspx).

Wealth inequality is typically two or three times greater than income inequality,<sup>6</sup> with the wealth Gini-coefficient being recorded at 0.73 compared to 0.32 for income in recent years.<sup>7</sup> Ethnic inequalities are even larger still, with Maori making up 10% of the population, yet owning 4% of wealth.<sup>8</sup> There is also strong evidence to suggest that wealth inequality is deepening over time and that wealth and income inequalities are linked; as capital income generated by wealth can deepen income inequality further.<sup>9</sup> Furthermore, wealth in New Zealand has been predominantly held in housing, meaning rising house prices and declining home-ownership, particularly in Auckland, are likely to exaggerate wealth inequalities if change does not occur.<sup>10</sup>

While statistics indicate that inequality, at least in terms of income, has tapered off from the mid 1990s, New Zealand's levels of inequality warrant increased attention. Inequality is generally regarded as a measure of fairness in society.<sup>11</sup> Policymakers should be concerned about inequality on the grounds of equity. While inequality can be accepted to some extent as "the inevitable consequence of just rewards for skill, hard work, and entrepreneurial flair," a certain degree of equity underpins New Zealand society.<sup>12</sup> This is reflected in decisions of successive governments and equity's inclusion in the Treasury's Living Standards Framework.<sup>13</sup> Inequality is a concern to the extent that it can reduce people's ability to participate in

---

<sup>5</sup> OECD, *Society at a Glance 2014: OECD Social indicators*, (Paris: OECD Publishing, 2014), 60.

<sup>6</sup> Perry, "Household incomes in New Zealand: Trends in Indicators of inequality and hardship 1982 to 2013," 19.

<sup>7</sup> Trinh Le, John Gibson and Steven Stillman, "Wealth and saving in New Zealand: Evidence from the longitudinal survey of family, income and employment," *New Zealand Economic Papers* 46, no. 2 (2012): 93-118.

<sup>8</sup> Alan Johnson, "Recent Wealth And Income Trends In New Zealand" (Research paper, The Salvation Army Social Policy & Parliamentary Unit, Wellington, 2015), 2.

<sup>9</sup> OECD, *In It together: Why Less Inequality Benefits All* (Paris: OECD Publishing, 2015), 36.

<sup>10</sup> Johnson, "Recent Wealth And Income Trends In New Zealand," 22.

<sup>11</sup> "Income Inequality."

<sup>12</sup> New Zealand Treasury, "Living Standards Background Note: Increasing Equity," (Background Note, New Zealand Treasury, Wellington, 2013), 2.

<sup>13</sup> Ibid.

the economy and society.<sup>14</sup> Intergenerational mobility, the extent to which individuals' incomes differ from their parents', is a good indicator of equity and participation, with international evidence finding that high inequality is strongly correlated with low intergenerational income mobility.<sup>15</sup> Inequality is also counter-productive to New Zealand's aims of inclusive growth, as when barriers to participation exist, growth is not creating opportunities for all or distributing increased prosperity fairly.<sup>16</sup> Thus tackling inequalities is important for promoting equity in society.

While causation is somewhat contested, there is growing evidence that suggests policymakers should have regard to inequalities due to their adverse impact on social and economic outcomes. Experts have found persuasive evidence of the link between high inequality and social problems, such as poorer health prospects, more criminal offending and less social cohesion.<sup>17</sup> Researchers explain that social problems are the result of psycho-social stigma, and shame engendered by large income gaps as well as reduced social capital (trust in people and institutions).<sup>18</sup> Independent reviewers have endorsed these findings, and despite New Zealand currently having high levels of social capital, this is not to say that levels are not at risk of being eroded by growing inequality.<sup>19</sup> New OECD research also finds an adverse impact of high inequalities on long term economic growth.<sup>20</sup> The rising distance of the poorest 40% from the rest of society is said to account for this effect.<sup>21</sup> Disparities in human-capital investment explain this, as high-

---

<sup>14</sup> Max Rashbrooke, "Why Income Gaps Matter: The Treasury and the tricky issue of inequality." *Policy Quarterly* 10, 1 (2014): 5.

<sup>15</sup> Dan Andrews and Andrew Leigh, "More inequality, less social mobility." *Applied Economics Letters* 16, no. 15 (2009): 1489.

<sup>16</sup> OECD, *In It together: Why Less Inequality Benefits All*, 37

<sup>17</sup> Marmot, Michael. "Fair Society, Healthy Lives: the Marmot Review." *UCL Institute of Health Equity*. Accessed July 2.

<http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review/fair-society-healthy-lives-full-report>.

<sup>18</sup> Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Equality is Better for Everyone*. (London: Allen Lane, 2009), 30.

<sup>19</sup> Max Rashbrooke, "Why Income Gaps Matter: The Treasury and the tricky issue of inequality," 6.

<sup>20</sup> OECD, *In It together: Why Less Inequality Benefits All*, 26.

<sup>21</sup> *Ibid*.

inequality countries produce larger gaps in education outcomes, with the poorest 40% being hindered in accessing quality education.<sup>22</sup> The result is wasted potential and an economy deprived of potential talent.<sup>23</sup> Wealth inequality in particular, was also found to weaken potential growth.<sup>24</sup> Wealth concentration can limit investment opportunities, as the low and middle class have low asset holdings, inhibiting investment in human capital and other investments.<sup>25</sup> Thus policymakers should worry about growing inequality to the extent that it poses a threat to social cohesion and outcomes as well as long-term economic growth.

Addressing inequalities within New Zealand for the purposes of equity, and improved social and economic outcomes is important, but requires careful consideration.

Piketty's recommendation of a global wealth tax raises important questions about the role tax should play in addressing inequality. An agreement on a global wealth tax may be unrealistic as it will always be in an individual country's interest to offer a tax haven.<sup>26</sup> Piketty's suggestion however has sparked debate, with a comprehensive capital gains or land tax being highlighted as key methods to achieve a more equitable and efficient tax system in New Zealand.<sup>27</sup> A comprehensive capital gains tax would be most effective where distributional impact is the main concern, as the lack of this tax increases inequality by reducing the redistributive power of taxation.<sup>28</sup>

---

<sup>22</sup> Oded Galor and Joseph Zeira, "Income Distribution and Macroeconomics," *Review of Economic Studies* 60, no. 1 (1993): 38.

<sup>23</sup> *ibid*

<sup>24</sup> OECD, *In It together: Why Less Inequality Benefits All*, 34

<sup>25</sup> *Ibid*.

<sup>26</sup> Gareth Simmons, "The crime is not being rich, the crime is we don't tax all the income that wealth can earn," *Gareth's World*, accessed July 1, 2015, <https://garethsworld.com/blog/economics/crime-rich-crime-dont-tax-income-wealth-can-earn/>.

<sup>27</sup> New Zealand Treasury, "The Role of Tax in Maintaining a Sustainable Fiscal Position," (Draft Paper For The Long-term Fiscal External Panel, New Zealand Treasury, Wellington, 2013), 3-4.

<sup>28</sup> OECD, *OECD Economic Surveys: New Zealand June 2013* (Paris: OECD Publishing, 2013) 22.

Implementing such a tax may also improve wealth inequality by reducing speculative housing investments and promoting housing affordability, which is particularly important in Auckland.<sup>29</sup> The tax system would also become more progressive, as ownership of these investment assets is highly skewed toward high-income households.<sup>30</sup> Moreover the OECD finds that higher taxes and transfers, such as this, if designed well, don't necessarily slow growth.<sup>31</sup> Thus the main impact would be a higher tax burden, predominantly affecting high-income households.<sup>32</sup> However, revenues gained could substantially improve inequalities through targeted spending.<sup>33</sup> Increasing the supply of social housing and housing subsidies is important to support low-income households, particularly in Auckland where the housing shortage is acute<sup>34</sup>. Incentivising low-income beneficiaries to work more than 20-hour weeks, through re-addressing benefit abatement rates and increasing childcare subsidies, may also be a crucial redistributive measure to reduce inequality, while fostering economic growth through increasing the work contribution of beneficiaries.<sup>35</sup>

While redistribution is an effective part of the solution, it may be insufficient where broader policies tackling inequality and in particular targeting the bottom 40% of society are not implemented.<sup>36</sup> While inequality adversely affects long-term growth, this does not mean that all policies that reduce inequality are good for growth.<sup>37</sup> Policies that enhance mobility by addressing barriers to participation, especially for those experiencing hardship, should

---

<sup>29</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 22.

<sup>30</sup> New Zealand Treasury, "The Role of Tax in Maintaining a Sustainable Fiscal Position," 41-42

<sup>31</sup> OECD, *In It together: Why Less Inequality Benefits All*, 17

<sup>32</sup> New Zealand Treasury, "The Role of Tax in Maintaining a Sustainable Fiscal Position," 41-42

<sup>33</sup> OECD, *OECD Economic Surveys: New Zealand 2015* (Paris: OECD Publishing, 2015), 31.

<sup>34</sup> *Ibid.*, 31.

<sup>35</sup> *Ibid.*, 3.

<sup>36</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 37

<sup>37</sup> OECD, *Divided we stand: Why inequality Keeps Rising* (Paris: OECD Publishing, 2011), 23

form the backbone of a policy package that deals with inequalities while being conducive to sustainable growth.<sup>38</sup>

Access to quality jobs is fundamental for boosting equal opportunities and reducing inequalities. People in employment are more likely to have higher incomes as well as improved wellbeing and participation in society.<sup>39</sup> Recent welfare reforms targeting long-term benefit dependence could be further improved by following up on people going off the benefit.<sup>40</sup> For current beneficiaries, increasing resources for job-search and activation could both increase economic growth and reduce income inequality.<sup>41</sup> Expanding training-based activation that focuses on skill development of the low skilled unemployed, through programs such as Vocational Pathways, should be considered.<sup>42</sup> The success of this approach can be seen in Finland, with co-ordination of services, such as employment assistance, education, and benefit administration optimising efficiency.<sup>43</sup> These policies should be geared towards and are particularly important for increasing participation of groups with high unemployment rates, such as youth, Maori and Pasifika.<sup>44</sup> Increasing the progressiveness of income tax could help to finance this and thus a larger tax burden for higher-income households would be the compromise.<sup>45</sup> This could be considered a long-term investment however, as along with reducing inequality, these policies could reduce long-term benefit spending, which is currently the fourth highest in the OECD.<sup>46</sup>

---

<sup>38</sup> OECD, *Divided we stand: Why inequality Keeps Rising*, 23.

<sup>39</sup> John Helliwell, Richard Layard and Jeffrey Sachs, *World Happiness Report (New York: Earth Institute: 2012)*, 21

<sup>40</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 3

<sup>41</sup> Orsetta Causa, Alain de Serres and Nicolas Ruiz. *Can pro-growth policies lift all boats? An analysis based on household disposable income. (Paris: OECD Publishing, 2015)*, 40

<sup>42</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 40.

<sup>43</sup> OECD, *In It together: Why Less Inequality Benefits All*, 42

<sup>44</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 34

<sup>45</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 47

<sup>46</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 18

Education has been found to be the most enduring protection against unemployment, and is key to reducing inequalities in a growth sustaining way.<sup>47</sup> New Zealand has the strongest intergenerational persistence in educational outcomes in the OECD, with outcomes being strongly dependent on socio-economic backgrounds and parental qualifications.<sup>48</sup> Research finds that participation in early childhood education (ECE) boosts intergenerational social mobility.<sup>49</sup> Further efforts to support the goal of 98% ECE participation, including programs to enhance involvement of parents and a focus on children from disadvantaged backgrounds, are essential.<sup>50</sup> New Zealand also has a long “tail” of school underachievers and dropout rates are among the OECD’s highest, both trends of which are more prevalent among ethnic minorities.<sup>51</sup> Modifying the system to better support students at risk of dropping-out is strongly recommended. While New Zealand has an effective mechanism of identifying and supporting youth who have already dropped out, a preventative approach which increases teacher training and resources for difficult learners should be considered.<sup>52</sup> Increased financial support for recruitment of effective teachers for schools in disadvantaged areas should also be examined.<sup>53</sup> Such policies would promote equality in education outcomes, however trade-offs may again be an increased burden, predominantly on high-income taxpayers.<sup>54</sup> A further opportunity cost of diverting resources to struggling students may be fewer resources devoted to average and high-achieving students.

It is not only important that people participate in education but also that market-relevant skills are obtained. New Zealand suffers from a mismatch between skills supplied by the education sector and skills demanded by

---

<sup>47</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 35

<sup>48</sup> *Ibid.*, 37.

<sup>49</sup> OECD, *PISA 2009 Results: Overcoming Social Background – Equity in Learning Opportunities and Outcomes (Volume 2)* (Paris: OECD Publishing, 2010), 104.

<sup>50</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 45.

<sup>51</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 37.

<sup>52</sup> *Ibid.*, 38.

<sup>53</sup> *Ibid.*

<sup>54</sup> *Ibid.*



employers.<sup>55</sup> Such a mismatch increases income inequality, as unmet demand for skills results in higher rewards for scarce competencies.<sup>56</sup> Moreover a surplus of non-tertiary qualifications in New Zealand can result in unemployment and lower wages for others.<sup>57</sup> This is reflected in low market returns to education and a rise in youth unemployment in New Zealand.<sup>58</sup> This can be addressed through enhancing recent reforms to apprenticeships by increasing participation of disadvantaged youth and promoting quality by including a strong training and skills component.<sup>59</sup> Linkages between tertiary providers and employers can also be strengthened further to ensure skills gained are market appropriate, and the quality and accessibility of careers guidance can be enhanced to complement efforts to improve information provision to students on occupational outlook.<sup>60</sup> Such policies would better coordinate skills with the economy's needs, while addressing income inequality through reducing wage disparities and unemployment.<sup>61</sup> The main concessions would again be public financing costs.<sup>62</sup> Considering apprenticeships, trade-offs include lower wages for apprentices initially and high costs to employers in terms of time and resources for training.<sup>63</sup> Nevertheless, studies have found that social benefits, namely reduced unemployment outweigh these costs.<sup>64</sup> It is thus clear that policies ensuring skills gained at tertiary level are relevant and required in the labour market, are essential for reducing inequalities and promoting growth.

---

<sup>55</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 36-37

<sup>56</sup> OECD, *In It together: Why Less Inequality Benefits All*, 46.

<sup>57</sup> OECD, *OECD Economic Surveys: New Zealand June 2013*, 36

<sup>58</sup> Ibid.

<sup>59</sup> OECD, *OECD Economic Surveys: New Zealand 2015*, 56.

<sup>60</sup> Education Review Office, "Careers education and guidance: good practice", (National Report Summary, Education Review Office, 2015), 1.

<sup>61</sup> OECD, *In It together: Why Less Inequality Benefits All*, 47.

<sup>62</sup> OECD, *OECD Economic Surveys: New Zealand*, 39.

<sup>63</sup> "The effectiveness and cost-benefits of apprenticeships: Results of quantitative analysis," European Commission, Accessed July 1, 2015, [ec.europa.eu/social/BlobServlet?docId=11352&langId=en](http://ec.europa.eu/social/BlobServlet?docId=11352&langId=en).

<sup>64</sup> "The effectiveness and cost-benefits of apprenticeships: Results of quantitative analysis,"

Growing wealth and income inequality is a matter that policymakers should increasingly take into account. New Zealand society values equity, and inequality becomes a serious concern when social mobility and participation in society is limited. Evidence also suggests that reducing inequality matters for economic growth. A comprehensive capital gains tax is vital in countering inequality through redistribution and is especially important given rising house prices and housings importance in the make up of wealth. Redistribution must be combined with policies to improve participation, in particular of disadvantaged groups. While costs may predominantly fall on wealthier members of society through necessary tax increases, investments in reducing long-term benefit dependence and improving participation in ECE have a considerable long-term benefit. Finally, a focus on keeping youth in school and making sure individuals acquire the skills demanded by the labour market is also at the core of addressing inequality in New Zealand.

## Bibliography

Andrews, Dan and Andrew Leigh, "More inequality, less social mobility." *Applied Economics Letters* 16, no. 15 (2009): 1489-1492.

Ball, Christopher and John Creedy. "Inequality in New Zealand 1983/84 to 2013/14." Working Paper 15/06, New Zealand Treasury, Wellington, 2015.

Causa, Orsetta, Alain de Serres and Nicolas Ruiz. *Can pro-growth policies lift all boats? An analysis based on household disposable income*. Paris: OECD Publishing, 2015.

Education Review Office. "Careers education and guidance: good practice". National Report Summary, Education Review Office, 2015.

Galor, Oded and Joseph Zeira, "Income Distribution and Macroeconomics," *Review of Economic Studies* 60, no. 1 (1993): 35-52.

Helliwell, John and Richard Layard and Jeffrey Sachs. *World Happiness Report*. New York: Earth Institute: 2012.

"Income Inequality." *Statistics New Zealand*. Accessed June 2, 2015.  
[http://www.stats.govt.nz/browse\\_for\\_stats/snapshots-of-nz/nz-progress-indicators/Home/Social/income-inequality.aspx](http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-progress-indicators/Home/Social/income-inequality.aspx)

Johnson, Alan. "Recent Wealth And Income Trends In New Zealand." Research paper, The Salvation Army Social Policy & Parliamentary Unit, Wellington, 2015.

Le Trinh, Gibson, John and Steven Stillman. "Wealth and saving in New Zealand: Evidence from the longitudinal survey of family, income and employment." *New Zealand Economic Papers* 46, no. 2 (2012): 93-118.

Marmot, Michael. "Fair Society, Healthy Lives: the Marmot Review." *UCL Institute of Health Equity*. Accessed July 2.

<http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review/fair-society-healthy-lives-full-report>.

New Zealand Treasury. "Living Standards Background Note: Increasing Equity." Background Note, New Zealand Treasury, Wellington, 2013.

New Zealand Treasury. "The Role of Tax in Maintaining a Sustainable Fiscal Position." Draft Paper For The Long-term Fiscal External Panel, New Zealand Treasury, Wellington, 2013.

OECD. *Divided we stand: Why inequality Keeps Rising*. Paris: OECD Publishing, 2011.

OECD. *In It together: Why Less Inequality Benefits All*. Paris: OECD Publishing, 2015.

OECD, *OECD Economic Surveys: New Zealand 2015*. Paris: OECD Publishing, 2015.

OECD. *OECD Economic Surveys: New Zealand June 2013*. Paris: OECD Publishing, 2013.

OECD. *PISA 2009 Results: Overcoming Social Background – Equity in Learning Opportunities and Outcomes (Volume 2)*. Paris: OECD Publishing, 2010.

OECD. *Society at a Glance 2014: OECD Social indicators*. Paris: OECD Publishing, 2014.

Perry, Bryan. "Household incomes in New Zealand: Trends in Indicators of inequality and hardship 1982 to 2013." Ministry of Social Development, Wellington, 2014.

Rashbrooke, Max. "Why Income Gaps Matter: The Treasury and the tricky issue of inequality." *Policy Quarterly* 10, 1 (2014): 3-8.

Simmons, Gareth. "The crime is not being rich, the crime is we don't tax all the income that wealth can earn." *Gareth's World*. Accessed July 1, 2015.  
<https://garethsworld.com/blog/economics/crime-rich-crime-dont-tax-income-wealth-can-earn/>.

"The effectiveness and cost-benefits of apprenticeships: Results of quantitative analysis." European Commission. Accessed July 1, 2015.  
[ec.europa.eu/social/BlobServlet?docId=11352&langId=en](http://ec.europa.eu/social/BlobServlet?docId=11352&langId=en).

Wilkinson, Richard and Kate Pickett. *The Spirit Level: Why Equality is Better for Everyone*. London: Allen Lane, 2009.