Analysing New Zealand's Income and Wealth Distribution

Inequality means the unequal distribution of income, wealth, goods, and services.
Inequity means the opposite of equity, the idea of fairness. It is a non-measurable concept (some people may think a situation is fair and others do not) so it is often a matter of opinion. 11

Differences in equity:

Horizontal equity looks at treating people in the same situation the same way, for example, all children in New Zealand (NZ) are able to receive a free education – this service is provided to them all.

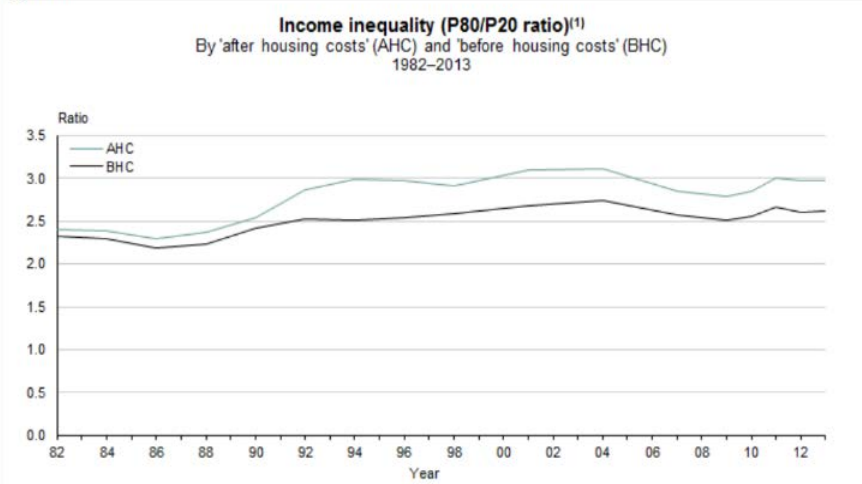
Vertical equity looks at what is fair to people in different situations. People are treated according to their individual circumstances. For example, middle and high-income households pay more tax than low-income households do. They may consider this unfair because they are hardworking and have to pay more tax than people who they consider are lazy or made bad decisions.

Three causes of income and wealth Inequality

- Wage Inequality
- Educational Outcomes
- Increasing housing costs

In 2010 the average pay for CEOs was $1.39 million and this increased by 3.3% to $1.44 million in 2011. The average for their employees, estimated by dividing the total pay bill by the number of staff was $63,960, up just 0.8% on the previous year. The CEOs get 22.5 times the pay of the average workers so this highlights why wage inequality will cause income to be distributed unequally and the gap between these groups will continue to grow each year if the CEOs receive larger wage percentage increases than other groups of workers. 12

Figure 1



1. The higher the ratio, the greater the level of income inequality.

Source: Statistics New Zealand. Published by the Ministry of Social Development

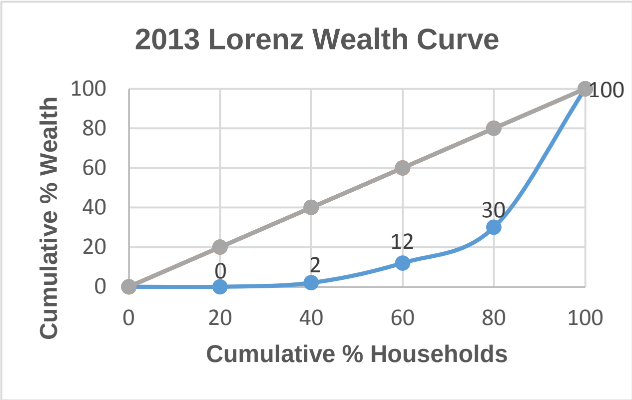
Another related cause of wage inequality and therefore income inequality is educational outcomes.
In 2011 New Zealanders with a bachelor's degree or higher earned, on average, 29% more than those with only upper secondary or post-secondary non-tertiary qualifications. In 2011, the average median hourly wage for those with tertiary degrees was $27.81, approximately 1.6 times higher than those with only high school qualifications. That is a lot more than the adult minimum wage rate of $14.25 an hour, and therefore it is better to gain a tertiary qualification if you want to receive more income and lessen your chances of being unemployed.

Groups of people with little or no formal qualifications are more likely to be unemployed, and unemployed for longer periods than those with tertiary qualifications. There is a growing gap between the incomes received by beneficiaries and superannuates and the income of the working population, so increasing your chances of employment by gaining qualifications is very important. 12

Higher outgoings to income e.g. housing costs have also made income inequality worse, because low to middle-income households struggle to pay for necessities like food, clothing, basic household services, transport, medical care and education after housing costs are paid.
In 2013, about 27% of households had housing costs that took more than 30% of their disposable (after tax) income, for the lowest income group of households it was 42% and for the second lowest group it was 36%.

In June 2013, almost all renters receiving the Accommodation Supplement (93%) spent more than 30% of their income on housing costs and 3 out of 4 spent more than 40% and nearly half of them spent more than 50% of their disposable income on rent.

In 2007, 33% of people entitled to the Accommodation Supplement were receiving the maximum payment, but this increased to 50% in 2013.



The NZ wealth distribution shown on my Lorenz Curve Model created using Excel shows that the top 20% of households own 70% of the wealth. The second highest group own 18% of the wealth, and the middle group own 10%. The lower group of households owns 2% and the lowest 20% of households own nothing.

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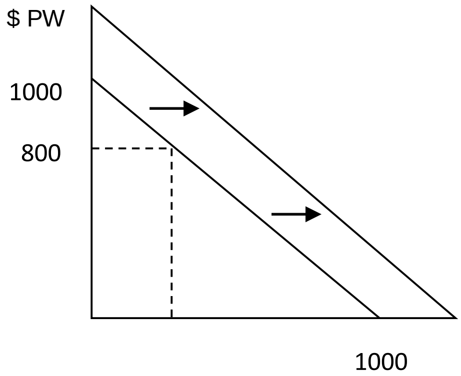
Consumption Possibility Curve

The consumption possibility curve shows the link between income and wealth, because when a consumer earns enough income they can choose to save their surplus income, shown as the consumer who is able to save $200 per week. If this is invested in income-generating assets like a term deposit in the bank it will give you interest and later you may be able to invest in a rental property, or shares. This means you are developing wealth, but other consumers may be spending all their income on bills and so have no spare income leftover. However, the consumer purchasing income-generating assets means their consumption possibility frontier has moved outwards from the old one.



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This is related to the causes mentioned above because for example, an unemployed person or a household in the two lowest groups do not have much income because of differences in educational outcomes and higher costs of housing, they cannot save any money and poor people spend all their income on bills. Lucky people and those who have inherited wealth can continue using their income to purchase more assets and so become even wealthier, and operate at the expanded consumption possibility frontier.

The government has worked to improve income inequality since 2004 through redistribution policies like Working for Families Tax Credits, and the Accommodation Supplement for low to middle-income households and interest-free student loans to encourage New Zealanders to get a tertiary qualification.

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[*Student also explained the impacts of the government redistribution and education policies on various groups of NZ society and the effect of these policies on income and wealth inequality.*]