

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.

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.

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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.**

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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 compared to people with just 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.**

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Higher Outgoings to Income (OTI) like **housing costs** have also made income inequality worse, because **low to middle-income households (Q1 and Q2) 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 Q1 group of households it was 42% and for the Q2 group it was 36%.

In the **late 1980s, 5% of households had a high OTI, greater than 40%**, but this percentage grew between the mid-1990s and 2013 to around 13 to 15% of households. 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.**

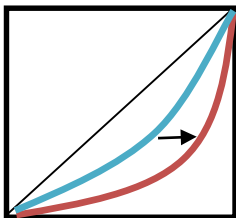
2014 Household Incomes Report – Key Findings.

<https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

The Lorenz Curve Model can show the extent of the inequality of income and wealth in an economy, the vertical axis shows the cumulative percentage of national income or wealth, and the horizontal axis shows the cumulative percentage of households. The further the Lorenz Curve is away from the line of absolute equality the more unequal the distribution of income or wealth. The red line shown in the model shifts right reflecting growing income inequality in NZ, the gap between the rich and poor has widened over the last two decades, and more households are becoming asset poor.

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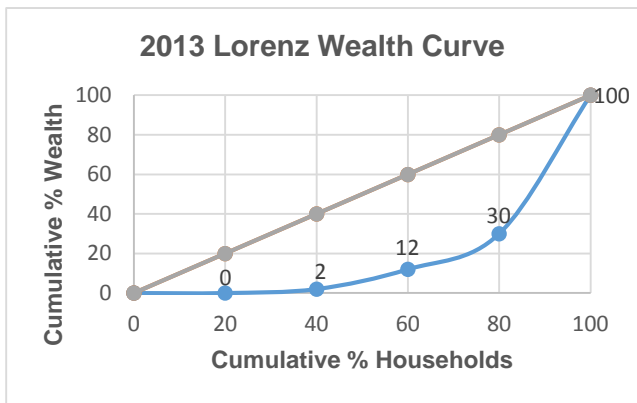
Lorenz Income Curves



"In 2009, the equivalised disposable income of a household at the 80th percentile was 2.5 times larger than that of a household at the 20th percentile. This was about the same as the ratio in 2007. In 1988, the ratio was 2.2. Income inequality rose steeply between 1988 and 1991, briefly plateaued, and then rose steadily from 1994 to 2004. Most of the observed increase in income inequality between 1988 and 2004 was due to a larger overall rise in incomes for those in the top 20 percent of incomes – around a quarter once adjustments for inflation are made. In that period, incomes for those in the bottom 20 percent of incomes decreased a little. Incomes for the middle 60 percent climbed more overall for those closer to the top 20 percent than for those closer to the bottom 20 percent."

<http://socialreport.msd.govt.nz/economic-standard-living/income-inequality.html>

Using the Gini measure for NZ, shows us that the top 10% of households receive 25% of the national income,



and the top 1% in New Zealand received about 8% of all taxable income in 2010 and 2011. Wealth inequality is about double income inequality, so the top 10% own about 50% of all household wealth.

2014 Household Incomes Report – Key Findings.

<https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>

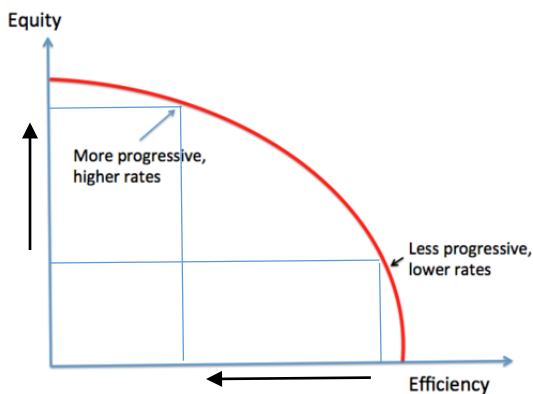
The NZ wealth distribution shown on my Lorenz Curve Model is based on the figures from an online article by Rob Stock, taken from Statistics NZ saying that the top 20% quintile (Q5) owned 70% of the wealth. The second

highest quintile (Q4) owned 18%, and the middle quintile (Q3) owned 10%, the lower quintile (Q2) owns 2% and the lowest 20% (Q1) of households owned

nothing. <http://www.stuff.co.nz/business/money/10416461/Wealth-split-worse-than-most-realise>

The causes above also help explain the link between income and wealth, because when a consumer earns enough income they can save their surplus income and invest in income-generating financial assets like term deposits, shares, gold and rental property. This highlights the gap between people who are able to create wealth and those who have to spend all their limited income or choose to spend it all. This link helps explain

way the income and wealth gap is widening between the richest and poorest quintiles. The people in a position to generate long-term wealth expand their future consumption possibilities by increasing their income through income-generating assets. It also creates more investment from increased savings and economic growth as people with more discretionary income demand more goods and services, increasing the demand for labour and creating more jobs. There is an incentive to work harder and earn more income to develop wealth and achieve a more comfortable lifestyle.



A progressive tax system with high marginal tax rates for top and middle income earners can act as a disincentive for taking job promotions for example, the extra tax you pay may mean that you are not much better off for working harder or taking on more responsibility.

However, there is a need for balance so we do not see real poverty develop in NZ. The government has improved 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 and improve their earning potential.

[Student also explained in detail 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.]