

Notes for Inequality and Poverty address to U3A

Paramount Cinema, Wellington, 11 October 2016

Bryce Wilkinson

Opening remarks

Thank you for your introduction and the opportunity to speak to this knowledgeable and experienced audience.

I chose this topic because The New Zealand Initiative has been researching it for more than a year. Early this year we (Jenesa Jeram and I) published a report on the poorly understood state of poverty in New Zealand. Our next report on the state of economic inequality in New Zealand will be published in a few weeks.

I also chose this topic because I saw that Max Rashbrooke has already addressed U3A on the subject, and our research provides some different perspectives.

Just to put me in the picture with a quick show of hands, how many of you have heard him speak on the topic or read his book?

For the avoidance of doubt, a bottom line in this presentation is that there are real grounds for concern about the extent of economic hardship (and worse) in New Zealand, regardless of the issue of economic inequality. Indicative orders of magnitude are 5% of the population on a severe measure and 8% on a less severe measure. For kids it is 8% and 14%.

It is less clear whether economic inequality in NZ is a problem in its own right. It is necessary to distinguish between good and bad sources of economic inequality, and focus on the latter.

Some interesting questions

It is a topic that generates lots of interesting questions such as:

- Exactly what is causing such high levels of economic hardship? If low income is the problem, what causes low income?
- Is it better to have a higher income absolutely or a higher income relatively?
- What is the optimal level of income or wealth inequality anyway?
- Is it helpful to say that those in low income households are living in poverty? If doing something about poverty is a moral imperative, is doing something about those on low incomes a moral imperative?
- How does one reconcile the overlap between hardship and obesity? Those living in the areas where hardship is greatest are 4 times more likely to be extremely obese than those in the least deprived areas.
- How do benefit levels today compare with low incomes in previous generations? (1936 weekly wage of £3 16s equates to 73% of the minimum wage and 54% of the proposed "Living Wage" of \$18.4 for 2012. What should we make of that?)
- What does it say about the welfare state and NZers degree of compassion that so many children are experiencing hardship whereas NZS has the elderly in relative comfort?
- How true is it that the poor are poor because the rich are rich?

- Should taxes on the rich be punitive regardless of revenue, or should they be set so as to maximise revenue or should they be set at a non-discriminatory rate?
- Do overseas concerns about ever rising income inequality and increasingly dominant inherited wealth apply to New Zealand?
- Is globalisation causing a ‘hollowing out’ in “the West”?

I can’t hope to deal adequately with all such questions in a single address and I am not sure which ones will be of greatest interest to you as a whole. So I aim to keep this presentation short enough to allow plenty of time for questions on matters that you would like me to address more fully.

A bit about my policy framework

Just to tell you a bit about myself and where I come from. My own early training was as a Treasury analyst. That training has a clear structure.

- One first asks what is the problem.
- The next question is what is unduly stopping those experiencing the problem from overcoming the difficulty.
- Having established the barriers, the creative phase is to identify options that actually address those barriers. Throwing taxpayer money at the symptoms of the problem may not be a good thing.
- Next comes the hard analytical task of assessing those options. It is not enough that an option will benefit those whom one is trying to help, although all too often government programmes fail to establish that they pass this test. An option must also provide benefits that exceed the costs of the programme.

Such questions ensure that Treasury officials worth their salt will never win a public popularity contest!

Common ground

Although these are contentious topics, I think there is more common ground than may be thought.

As Jonathan Haidt pointed out in his excellent book *The Righteous Mind*, it is all too easy to assume that those who think differently from us are of less moral virtue. “We” have the high ground. In reality there is scope for people to validly differ concerning priorities and options. It is too lazy to dismiss them on the ground bad motives. It takes a lot more effort to understand why those with a different point of view also genuinely see themselves as morally virtuous.

Common ground on points of fact and opinion

Thanks to excellent annual reports by MSD there is little dissension about many of the statistical facts about the extent of hardship and income inequality in NZ. Treasury has also made some excellent contributions in its working paper series and Brian Easton has written a very good “Users’ Guide to inequality in New Zealand.

Wealth is more unequally distributed than market income which is more unequal than is disposable income.

- The wealthiest 10% hold around 50% of all household wealth, whereas the top 10% of income earners receive a 25% share of all income. {MSD}
- Lifetime income is a lot more equal than is snapshot income.

Proportionate increases in incomes widen dollar income gaps.

Income inequality rose in NZ from the mid-1980s to around the mid-1990s due in part to a lift in top salaries

Indexing working age benefits to the CPI and NZS to wages is having differential effects

- OECD deprivation figures show NZ elderly in relatively good shape

The degree of economic deprivation in NZ is a real concern. I have already mentioned the broad statistics. Here are some more:

- 20-25% of kids live in households with no adult in full-time employment. 17% of children live in beneficiary families and between 2009 and 2012 only 1/6 of the 1/3rd of a million of adults of working age on a main benefit had any other income to declare.

So lack of full-time employment is a major cause of low market income.

- Children in beneficiary households are far more likely to be experiencing material economic hardship than children in working households, but given the greater proportion of the children in the latter category, the no of children experiencing hardship comes out about the same.
- Current low income is not a good indicator of material hardship, the overlap is only around 40-50%. Chronically low income is a better indicator.
- BUT, low wage rates ARE also an issue. Around 40% of children are in income poor households in which at least one adult is in full-time work.
- Education matters for wage rates. Those with a university degree get around 4x the average weekly wage of those without an educational qualification.

Sky-rocketing housing costs are a real concern and are hitting those on low incomes hardest.

Corporate welfare and other sources of government privilege that create unfair advantages or barriers are a bad thing. Bailouts for rich bankers are outrageous.

So there is a lot of common ground and we owe a lot of that to MSD and Bryan Perry

Common ground on points of principle

Compassion: How well a community cares for those who cannot care for themselves is a real measure of its worth

Egalitarianism - A fair go: Opportunities to rise are open to all based on individual merit rather than on gender, ethnicity, origins or social class. Unequal outcomes from chance are also OK as long as the process is fair (eg Lotto).

Meritocracy: High incomes due to effort, responsibility, ability and courage are OK, high incomes due to aristocracy, political privileges, fraud, corruption and crime are not OK.

Differences arise more in the nuances. At this point I am focusing on common ground.

Points of difference from the popular public narrative

- Not true that NZ one of the most unequal in the world for income [TV](#)
 On the OECD's database for 2013, market income inequality was greater than in New Zealand in 23 countries out of 36. (ie in was more unequal in 2/3rds of the OECD countries.)
- Not true that income inequality continues to widen. [Chart]
 The magnitude of the tax reforms during the late 1980s raises a doubt as to how much of the measured rise in income inequality was real. The Creedy-Ball consumer spending inequality estimates indicate that some of it was real, but its effects did not endure.

“The divide between New Zealand’s poorest and wealthiest inhabitants has widened alarmingly over recent decades. Differences in income have grown faster than in most other developed countries.” Blurb [here](#) for Max Rashbrooke’s book *Inequality a New Zealand Crisis*.
- Reason for poverty is lack of income (Max Rashbrooke [video](#) on book launch). But the contemporaneous fits is not particularly good and what causes lack of income?
 - Actually only around 40-50% of those who are income poor at a point in time are also materially deprived. (Perry)
- There is considerable life-cycle income mobility upwards (young people rising, women re-entering the workforce) and downwards (older people peaking and retiring)
 A Treasury working paper found that after 8 years only 22% of people were in the same income decile as the one they started in. Unsurprisingly, those at the bottom tended to move up and those at the top tended to move down.
- Measured consumer spending inequality no higher in 2013 than in 1984. [CHART]
 Research finds that consumer spending better related to hardship than current income.
- Top salaries in NZ low relative to those in Australia, UK, USA both absolutely and relative to mean worker incomes.
- Not true that the introduction of GST was regressive on Treasury’s analysis.
- Not true that the reduction in unionisation can explain the events through to the mid-1990s.
 - Share of compensation of employees in national income has risen recently
- Ridiculous of Robert Wade to blithely assert the ([zero sum game](#)) argument that higher incomes at the top are at the expense of lower incomes for everyone else

Ethical points

Egalitarianism vs Meritocracy

- Not an either or. NZers don’t object to high incomes where merit is undeniable (Lydia Coe)

- Nor do NZers dissent over equal treatment (eg equal pay for equal work).
- NZers strongly reject class divisions (Jake is as good as his master).
- NZers have a bias against overt elitism and bragging (I have never heard a NZer admit to being a member of MENSA).
- But stronger forms of egalitarianism are much more controversial. The most extreme form is that differences due to genes, parenting, hard work and thrift constitute an unfair advantage. Draconian taxes on the successful and their offspring are needed. On my reading, Rashbrooke, Wilkinson and Pickett and Piketty are towards this end of the spectrum. Under this view, the need to reward merit and effort is a begrudged necessity rather than an ethical principle.

Actual and perceived equity

Critical issues are (1) whether differential outcomes are perceived to be fair, and (2) the accuracy of those perceptions. So the fairness of the process and the starting point are important.

Public perceptions are well off the mark as to inequality facts. But in NZ there is quite a broad view that top incomes reflect merit and those of working age on welfare should be working.

But there has been an 8-fold increase in newspaper headlines featuring inequality in NZ.

Policy proposals

Soak the rich (Rashbrooke, Piketty, Pickett and Wilkinson)

Drives the rich into tax lawyers, tax havens and overseas. May well reduce the revenue from high income individuals. The problems at the bottom of inadequate education, access to jobs, mental illness, alcoholism, drug dependency, juvenile difficulties (anorexia, suicide, binge drinking), broken homes, family violence etc remain. If the aim is to maximise tax revenue from the rich, punitive taxes miss that mark.

Minimum wage

A higher minimum wage does not help those who don't have a job. They tend to be the ones who have the least to offer employers.

It does help families who are already well off with one or two adults earning full-time professional incomes, but with teenagers seeking employment.

So the problem is that it is ill-targeted. (Cutting off the bottom rung of the ladder for those who are most struggling to get into the workforce for the first time.)

Living Wage

As a central or local government policy, the problem is that paying government employees more than you would have to pay someone else to do the same job just as well is unfair to those who missed out. It is also a tax on everyone else, and one that likely fails to confirm to sound tax principles. From a social welfare point of view, the government employees might be less in need than those who are not.

Guaranteed basic income

As a central government policy, the problem is that tax money paid to those who don't need it is tax money that can't be paid to those that really need it. So to pay money to those who don't need it means either raising taxes or paying less money to those who don't need it.

To illustrate, in 2010 Treasury calculated that everyone's tax rate would have to be at least 55% in order to pay every adult \$300 per week plus \$86 per child per week in place of all existing benefits including NZS and Working for Families. At the same time, those who are already worst off would be made even more worse off. The proportion of the population living under 50% of the median income would rise by 5%.

- **Targeting a halving in some poverty measure**

The risk is that the target becomes a priority goal in its own right, independently of whether its achieving is making a material difference to people's situation. It can make boosting the incomes of those who are just below the target by a few dollars a week more important politically than helping those whose plight is much more serious.

- **Tradeoffs**

Greater income equality could come variously at the expense of lower mean income, less proportionality in the tax system.

Concluding remarks

It is very costly to tax people in order to give money back to the same people—or to others that do not need it. (Treasury and John Creedy/Normal Gemmell research estimates.)

Taxpayer dollars given to those not experiencing serious hardship are taxpayer dollars not available for alleviating serious hardship.

The goal of achieving a more equal distribution of income is different from the goal of alleviating hardship due to problems such as unduly high housing costs, mental illness, other health problems, physical incapacity, illiteracy, alcoholism, lack of paid work, inability to budget, lack of knowledge about diet, absent fathers and many other contributing factors.

It simply does not make sense to say that the plight of those experiencing these problems are made worse because some people are working long hours on responsible and demanding jobs that lead to supermarket shelves being stocked with goods that we want to buy.

Hardworking top professionals managers and business leaders are not holding the people at the bottom back. Their pay is commonly low relative to their overseas counterparts.

But it is very important that high income are earned on merit AND that it is widely perceived that they are earned on merit. Anything else corrodes social cohesion.

So our report is strongly opposed to corporate welfare and political privilege.

But the thrust of our analysis is that policy attention should be focused on the deeper causes of the hardship being experienced in too much of our community.

Thank you very much. I welcome your questions.

POORLY UNDERSTOOD

THE STATE OF POVERTY IN NEW ZEALAND

BRYCE WILKINSON
JENESA JERAM



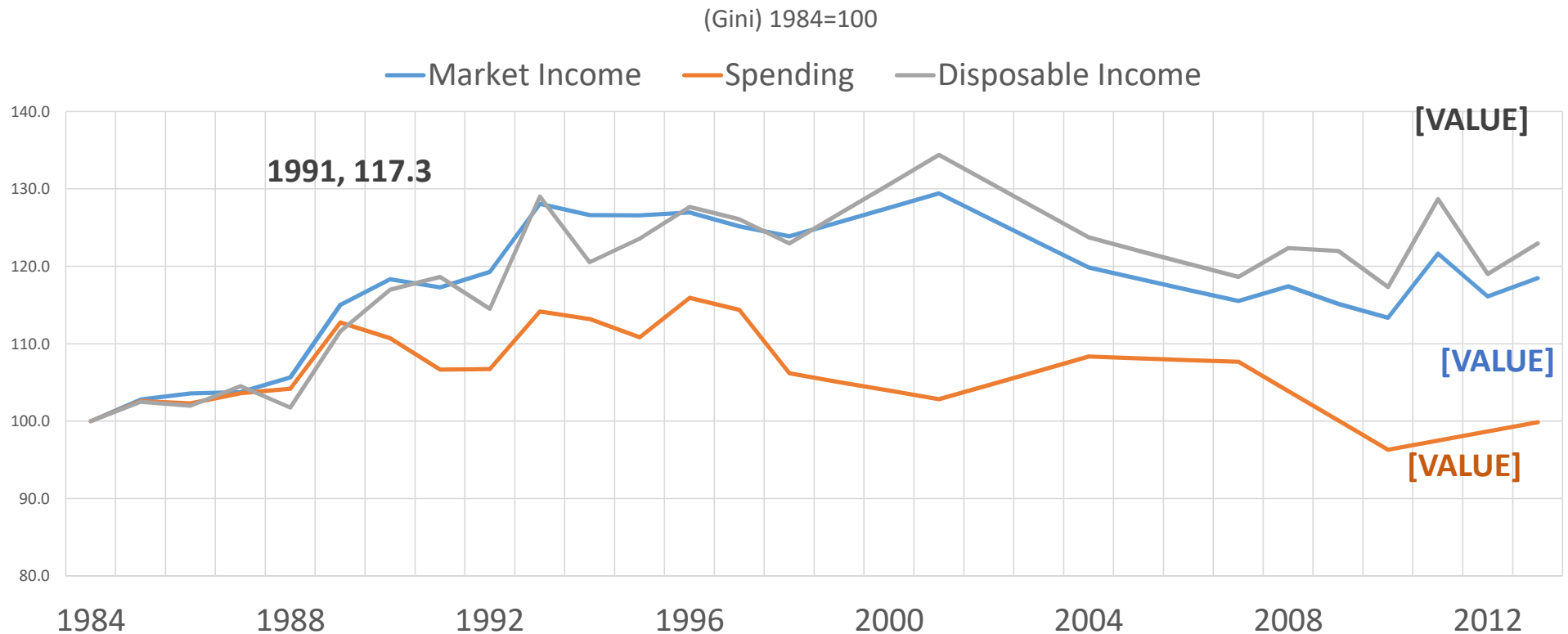
THE
NEW ZEALAND
INITIATIVE

1 of 68

Three Inequality Measures 1984-2013

(A higher score means greater inequality)

Source: Christopher Ball and John Creedy, "Inequality in New Zealand 1983/94 to 2013/2014, Treasury Working Paper 15/06, 2015.

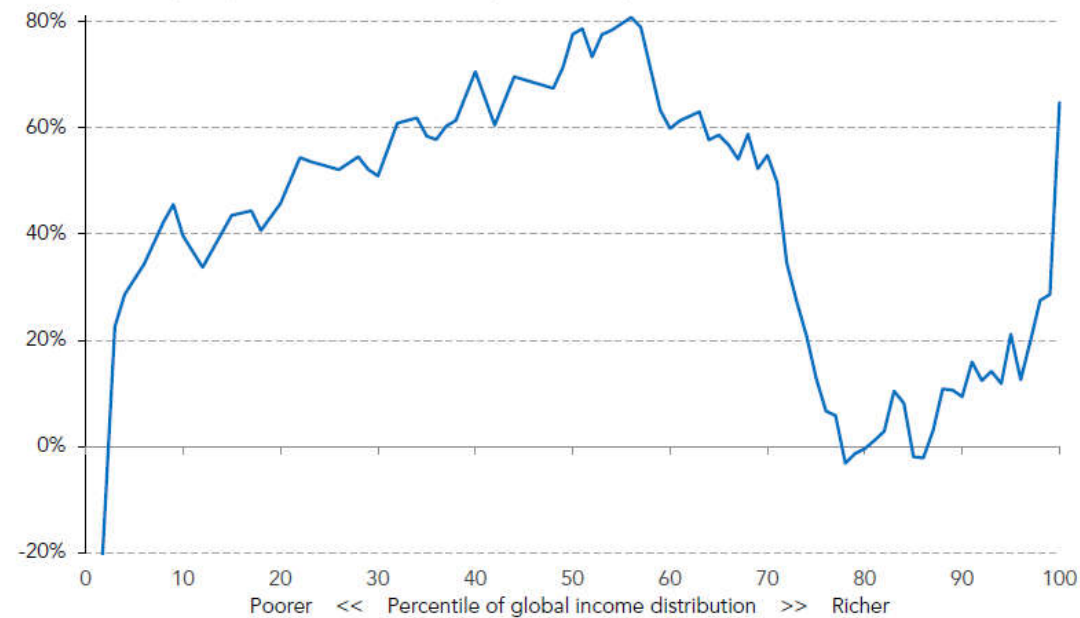


Global Income Growth – the “Elephant” Curve

Source: Christopher Lanker and Branko Milanovic, World Bank, 2013

Figure 1: Replication of the Lakner-Milanovic global growth incidence curve ('elephant curve'), 1988-2008

Growth in average per capita household income of each percentile group



Source: RF analysis of Lakner-Milanovic World Panel Income Distribution

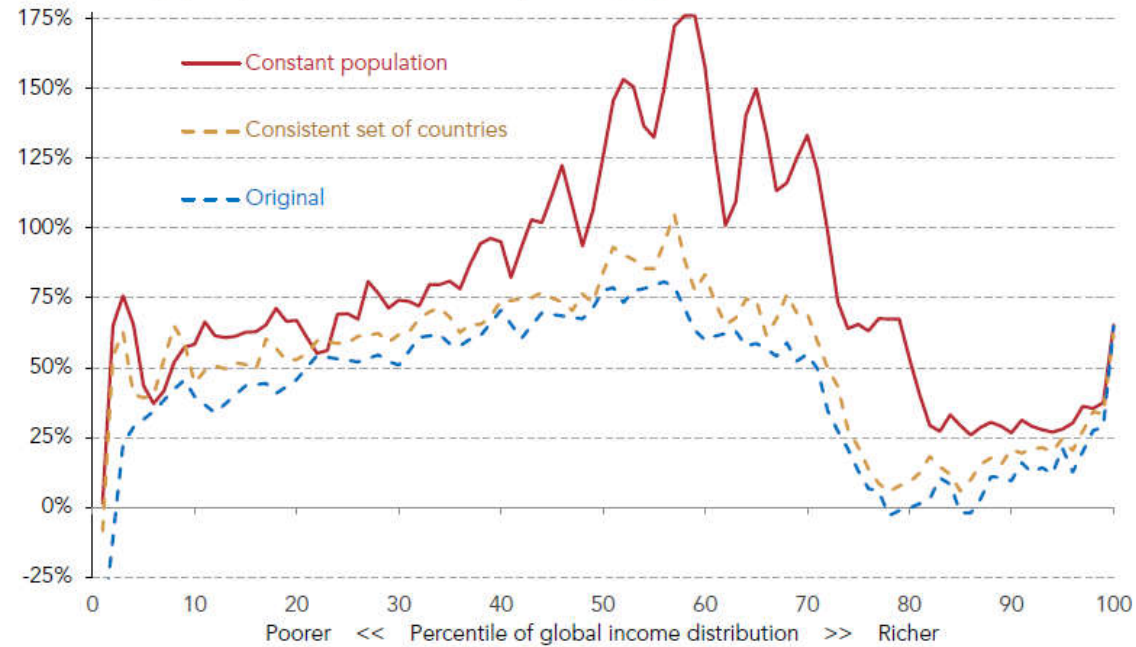
Notes: Axis is cut off at negative 20 per cent.

Marked real income growth in 'the West'

Source: Adam Corlett, Resolution Foundation, September 2016.

Figure 8: Global income growth incidence curve if the relative size of each country had remained unchanged, 1988-2008

Growth in average per capita household income of each percentile group



Source: RF analysis of Lakner-Milanovic World Panel Income Distribution