INCOME GAP

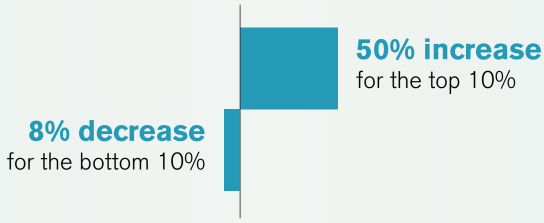
Are you getting your fair share?

Growing income inequality means that many people are missing out on a fair share of the income generated in the eonomy.

Benefits – are we looking after Kiwis in need?

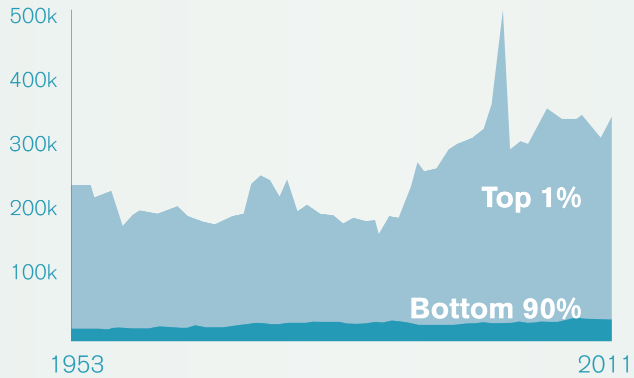
In 2011, New Zealand had the lowest benefits paid, compared to average wages, in around 33 OECD members. For example, we ranked last for a two-earner couple with children on two-thirds of the average wage.

Disposable income after housing costs, 1982–2012



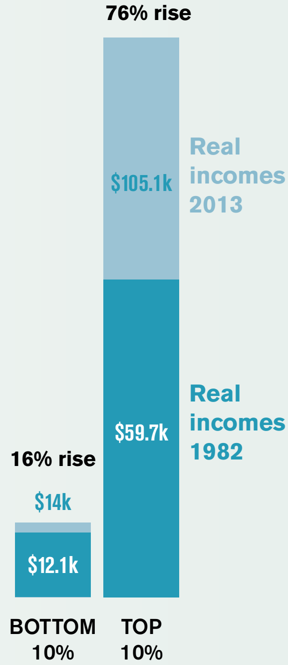
Between 1982 and 2012, after housing costs, there was a 50% increase in disposable income for the top 10% of income earners and an 8% decrease for the bottom 10%. The gains from economic growth over these 30 years went mainly to the rich.

Average real pre-tax income in 2011 dollars



In New Zealand, the top 1% received 11 times the 2011 income of the bottom 90%.

The increasing gap



NBR rich list

What are they worth?

1986 - $12 billion
2013 - $60 billion

Meanwhile...

One in four children in New Zealand live in poverty

What has caused the increasing rise in income inequality?

- **Employment Contracts Act – enabled employers to hold down wages**
- **Harsh cuts In benefit levels**
- **The recession has had a greater impact on those on lower incomes**
- **Tax cuts received by those on higher incomes**
- **Globalisation**

NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Find out more: http://union.org.nz/election2014

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NEOLIBERAL POLICIES IN THE 1980S AND 1990S TRANSFORMED NEW ZEALAND INTO A MUCH LESS EQUAL SOCIETY.

The current government's policies preserve and reinforce that inequality

Unjustifiable income inequality means that many people miss out on their fair share of the income generated in the economy. The gains from economic growth over thirty years have gone mainly to the rich, with only modest gains for the bottom half of the income distribution, and actually falling real incomes for those at the bottom.

Between 1987 and 1994, neoliberal policies[1] resulted in a sudden shift in income distribution which has remained locked-in for the following two decades. That step-change to a more unequal society is clear in the official statistics of inequality:

- The proportion of the population with income below 50% of the median (one measure of poverty) was 5% in 1986. By 1994 it was 13% and by 2011 it reached 15%.
- The share of the income generated in the economy that goes to wage and salary earners (the "Labour Share") fell from 60% of income in 1981 to 46% in 2002 - in other words employees lost almost a quarter of their share of income. In 2012 New Zealand had the third lowest labour share among 32 countries in the OECD (greater only than Mexico and Chile).
- In 1982 the top 0.5% of income recipients received on average 8.6 times as much income as the bottom 90%. In 2011 the ratio was 14 times. In 1982 the average in the top 1% received 6.9 times the average of the bottom 90% of the population; by 2011 the ratio was 11 times.

Over the past decade income inequality has remained virtually unchanged. Bill English treats this as a success story. But there is, and will continue to be, steadily growing long-term damage so long as current inequality levels are tolerated, because of the effects on the distribution of <u>wealth (assets like property, shares and bank deposits, less debt).</u>

Wealth is distributed more unequally than income. In New Zealand, those in the top income decile receive close to 25% of gross income but those in the top wealth decile hold 50% of the total wealth.[2]

The NBR Rich List (a significant part of the top 1%) had total wealth of $12 billion (in 2013 dollars) in 1986. By 2000 this had risen to $15.5 billion, and by 2012 to $60.4 billion. That explosion of wealth at the top developed <u>after</u> the big shift in income inequality, as rich people saved, speculated and invested out of their increased after-tax incomes.

Meantime at the bottom, the neoliberal legacy of inequality has burdened the least well-off in our society with low wages and inadequate benefits. Because they don't have, and can't earn, enough to cover their families' basic living costs, they have run down their assets and gone steadily further into debt.

- The rising rates of overcrowded housing, electricity disconnections, third-world diseases and other poverty indicators among children, are merely the outward signs of the long-term impoverishment of hundreds of thousands of New Zealanders. Current policy settings lock in that impoverishment, and the low incomes that continue to produce it, while promising yet more tax cuts and corporate welfare for those at the top.
- Since the benefit cuts in 1991, 70 to 75% of children in beneficiary families have been identified as poor in each Household Expenditure Survey. In the years before the benefit cuts the rate was around 30%[3]. Since the Global Financial Crisis began in 2008 and National came to power, the statistics show a jump in the most severe forms of child poverty. In 2013, there were 1.06m dependent children (under 18). Between 120,000 and 260,000 of them were in households with incomes below the low-income thresholds that are used to define poverty[4].

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1 Bryan Perry, *Household incomes in New Zealand: trends in indicators of hardship and poverty 1982 to 2012*, Ministry of Social Development, Wellington, 2013, p.11.

2 Perry 2013 p.11.

3 Perry 2013 p.21.

4 Bryan Perry, *Household incomes in New Zealand: trends in indicators of inequality and hardship*, Ministry of Social Development, Wellington, 2014, p.137.

- It's not just beneficiaries who suffer. Low wages are also a major cause of poverty. Two out of five children living in poverty in 2012 were in households where at least one adult was in full-time employment or self-employed[5].

Grim as they are, the available statistics actually understate the extent to which income inequality has worsened, because the figures exclude untaxed capital gains and other categories of capital income that go mainly to the top 10%.

Policymakers have not taken the problem seriously. Household disposable incomes, adjusted for housing costs (which are a significant source of inequality in themselves), became slightly less unequal following Labour's Working for Families, accommodation supplements and income-related rents policies. Then they became more unequal again after National's 2010 Budget tax cuts for the rich. But none of these policies reversed the seismic shift of 1987-94.

What should be done

- First off, abandon the notion that inequality is somehow necessary to spur economic growth. More equal societies are not only happier and healthier[6] but also grow faster[7]. Inequality, poverty and all the bad outcomes that flow from them are unacceptably high. They are damaging to society and indeed the economy. They arise from poor, often disastrously bad, policy - now and in the past. They can be reversed and should be.

- Wages need to increase. Raising the minimum wage and restoring collective bargaining rights are just the start.

- Fiscal policy needs to change to seize opportunities to rebalance the economy in social terms – for example addressing inequality and poverty through higher top tax rates, taxes on assets (such as capital gains tax), and tax free entitlements for low income earners. We should consider universal income entitlements to reduce high marginal tax rates for beneficiaries and to improve the coverage of Working for Families.

- Capital gains, financial transactions, wealth, trusts, should all be carrying their share of the tax burden. To stop the increasing and unhealthy concentration of wealth we should consider reinstating taxes on large gifts and inheritance.

- Benefits need to be indexed to wages, not to prices. We should consider bringing benefit levels back up to the benchmark set by the 1972 Royal Commission on Social Security, which called for levels which enable beneficiaries to participate fully as members of the community.

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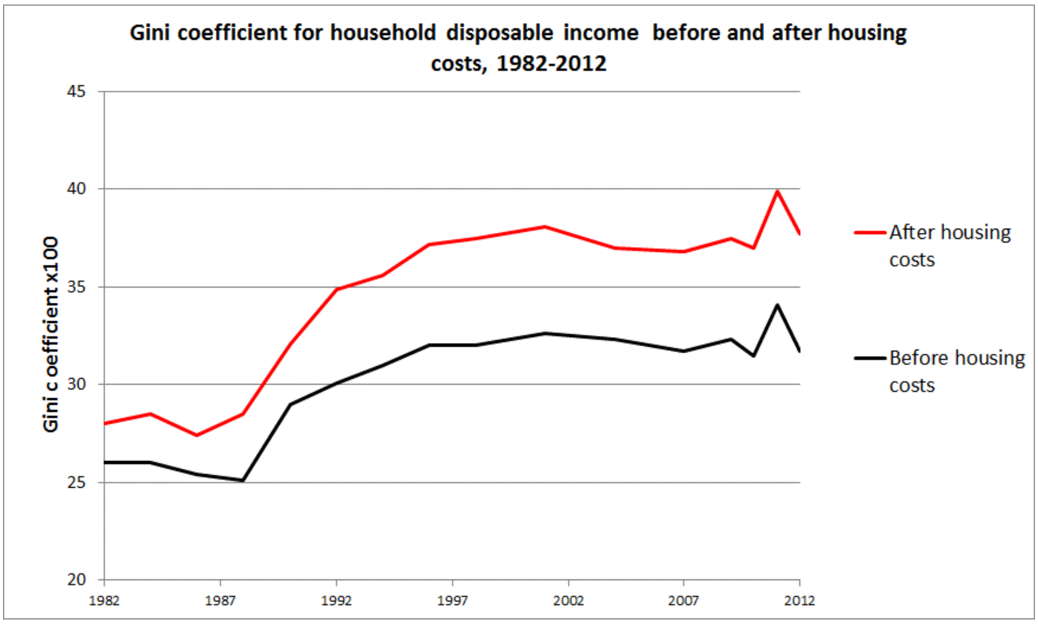
5 Perry, p.20

6 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Inequality is Better for Everyone*, Penguin, London, 2010.

7 Jonathan Ostry, Andrew Berg, and Charalambos G. Tsangarides, *Redistribution, inequality and growth*, Washington DC: IMF, April 2014, p.4: "lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution... [R] edistribution appears generally benign in terms of its impact on growth; only in extreme cases is there some evidence that it may have direct negative effects on growth."

Measures of income inequality

The dramatic increase in inequality between 1987 and 1994, and the accompanying sharp increase in household poverty, appears clearly in many statistical series. One of these is the "Gini coefficient" calculated by the Ministry for Social Development (MSD) to measure inequality of household disposable income – that is, income after taxes have been paid and welfare benefits received. This would be zero if income were perfectly equally distributed, and one if all income went to the richest individual. The Ministry produces the calculation before housing costs (BHC) and after housing costs (AHC). Comparing the two shows that the trend over time is the same, but the consistently higher value of the AHC figure makes clear that housing costs hit the poor harder than the rich, and the widening gap between the 1980s and the 1990s shows that the burden of housing costs has become more unequally distributed:

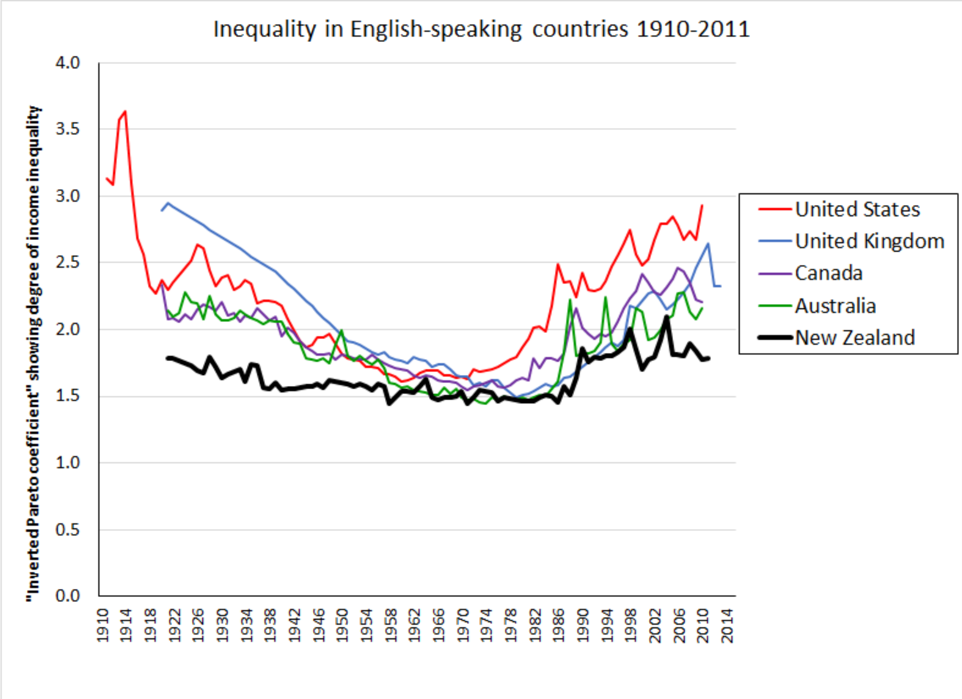


Source: Constructed from B. Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship1982 to 2012 Revised Tables and Figures 27 February 2014* p.9 Table D9.

The trends in inequality of disposable income are clear: slightly down in the 1980s until the big neoliberal policy changes of Roger Douglas and Ruth Richardson produced a big one-off jump in inequality, that was then locked in by the National Government of the 1990s. From 2000 to around 2008 there was some reduction in inequality, possibly attributable to the Labour/Alliance Governments' Working for Families, Accommodation Supplement, income-related rentals on state housing combined with low unemployment, but inequality appears to have worsened again following the Global Financial Crisis and the 2010 Budget.

The GFC actually temporarily reduced inequality (capital income was hit harder than labour income) but then the jump in the Gini in 2011-12 is most likely due to the 2010 tax switch; this should be clearer once the 2013 figures become available from the Ministry for Social Development. While it has been argued that so far there is no noticeable trend either up or down, after taking into account housing costs, inequality does appear to be rising.

Inequality of before-tax income distribution (in contrast to MSD's disposable-income calculations) has been calculated by Thomas Picketty and his fellow researchers using a different inequality measure called the "inverse Pareto-Lorenz coefficient" which focuses on the highest incomes. A very long-run comparison of New Zealand with other English-speaking economies from 1921 to 2005 shows a U-pattern of inequality across these countries, with inequality falling in the mid-twentieth century and then rising from the mid-1980s:



Source: http://topincomes.g-mond.parisschoolofeconomics.eu/#Database accessed May 2014

A striking feature of this chart is that New Zealand seems to have been much less unequal than the other four up to the 1970s, but to have joined the general trend of rising inequality in a dramatic way after 1985 and ended up more unequal than a century ago. For New Zealand, in other words, the neoliberal era marked a sharper break from the past than in, say, the USA or UK which were simply returning to early-twentieth-century norms.

Since the early 1990s the chart shows no sign of any downward trend in the inequality of pre-tax incomes in New Zealand.

Brian Easton similarly finds that "New Zealand had the greatest increase in income inequality in the decade to 1995 (among rich countries for which we have data)"[8] and considers that since the early 1990s there has been no trend. Easton's figures for average pre-tax real income taken from the census[9] show a rising share for the lower deciles in the income distribution between 1981 and 1986, then a steady squeeze as the top 10% improved their position through to 2001, then some slight bouncing-back in 2006, after the introduction of Working for Families.

Average incomes by decile

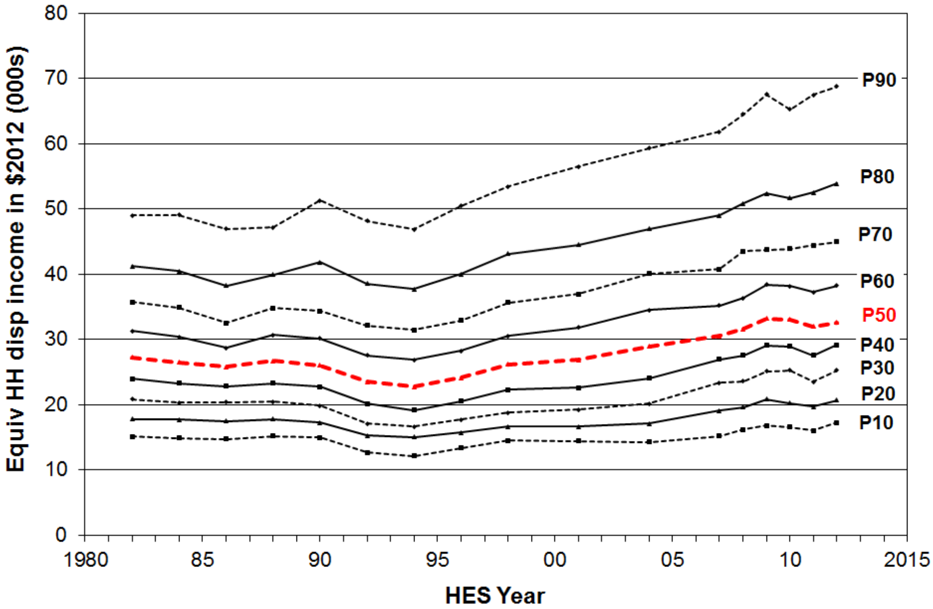
The Ministry of Social Development's analysis of after-tax cash incomes of households, before (BHC) and after (AHC) housing costs, provides the two graphs below. The incomes are "equivalised", meaning that they are adjusted to take into account the household's size and composition in terms of adults and children. Dollar values can be thought of as the income of a single adult household with the same resources available as each adult in the equivalised household. The analysis uses data from Household Economic Surveys (HES).

The graph below shows real average BHC income by "decile boundary" since 1982. A decile boundary is the top or bottom income in a 10 percent slice of households ranked by income.

8 Brian Easton, "Economic inequality in New Zealand: a user's guide" *New Zealand Sociology* Volume 28 Issue 3 2013 pp.44-45.

9 Brian Easton, "Economic inequality in New Zealand: a user's guide" *New Zealand Sociology* Volume 28 Issue 3 2013 Table 1 p.30.

Real equivalised household incomes before housing costs: decile boundaries, 1982 to 2012



Source: Bryan Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2012 Revised Tables and Figures*, Ministry of Social Development, 27 February 2014, https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/household-income-report/revised-tables-and-graphs.doc , p.6.

In the BHC chart, households at the bottom of the top 10% of the income distribution ("P90") have seen their real income rise by 40% since 1982, from $49,000 to $68,800 in 2012 dollars. Meantime those at the top of the bottom 10% ("P10") have seen their income rise only 14%, from $15,100 to $17,200, and those at the top of the bottom 20% (P20) have gained only 16%, from $17,800 to $20,600. The 1990s recession cut real incomes for all groups measured but the falls were greatest at the bottom end: from 1988 to 1994 the top group suffered only a 0.6% reduction in income whereas incomes of the lowest 40% fell between 15% and 20% (see table below). By 2001, the bottom 60 percent of households were yet to see higher incomes than in 1982, and the poorer the household the longer it took to rise above the level they had been at 20 years earlier.

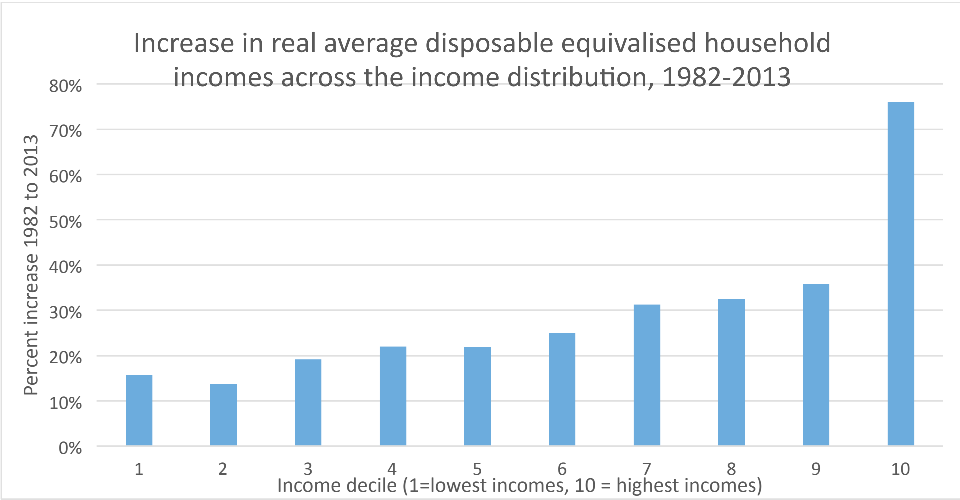
The picture looks even more stark when looking at *average* incomes in each decile, rather than decile boundaries. Between 1982 and 2013 the bottom 10% of the household income distribution saw their real average income increase only 16%, from $12,100 to $14,000. Over the same period the top 10% saw their average real income rise by 76%, from $59,700 to $105,100. See the table and chart below.

Average real income in each decile of the income distribution, 1982-2013, in 2012$

	Income deciles									
HES year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1982	12,100	16,800	19,300	22,300	25,600	29,300	33,300	38,400	45,000	59,700
1984	12,000	16,500	19,000	21,700	24,800	28,400	32,500	37,600	44,300	59,600
1986	12,500	16,300	19,000	21,400	24,300	27,200	30,600	35,100	42,100	57,700
1988	12,800	16,900	19,200	21,900	25,000	28,600	32,600	37,200	43,400	58,800
1990	11,600	15,100	18,500	21,100	24,300	28,100	32,100	38,000	46,200	70,800
1992	10,600	14,500	16,000	18,500	21,900	25,400	29,700	35,000	43,000	64,200
1994	10,500	14,000	15,700	17,800	20,800	24,800	29,000	34,400	41,800	64,500
1996	11,100	15,100	16,700	19,000	22,200	26,200	30,300	36,400	44,300	73,000
1998	12,200	16,000	17,600	20,300	24,200	28,200	32,900	39,100	47,400	78,100
2001	12,100	15,900	17,900	20,800	24,700	29,400	34,400	40,500	49,800	82,900
2004	12,200	16,400	18,500	22,200	26,400	31,600	37,300	43,600	52,200	83,100
2007	12,100	17,400	21,300	25,100	28,600	32,700	38,100	44,500	55,000	88,900

2009	-	-	23,000	27,000	31,100	35,600	41,000	47,700	58,700	102,500
2010	13,800	19,400	22,700	27,100	31,000	35,500	40,900	47,400	57,500	96,700
2011	-	-	21,500	25,700	29,800	34,500	40,600	48,000	58,200	106,200
2012	-	-	22,800	27,300	30,800	35,200	41,400	49,200	60,100	97,200
2013	14,000	19,100	23,000	27,200	31,200	36,600	43,700	50,900	61,100	105,100

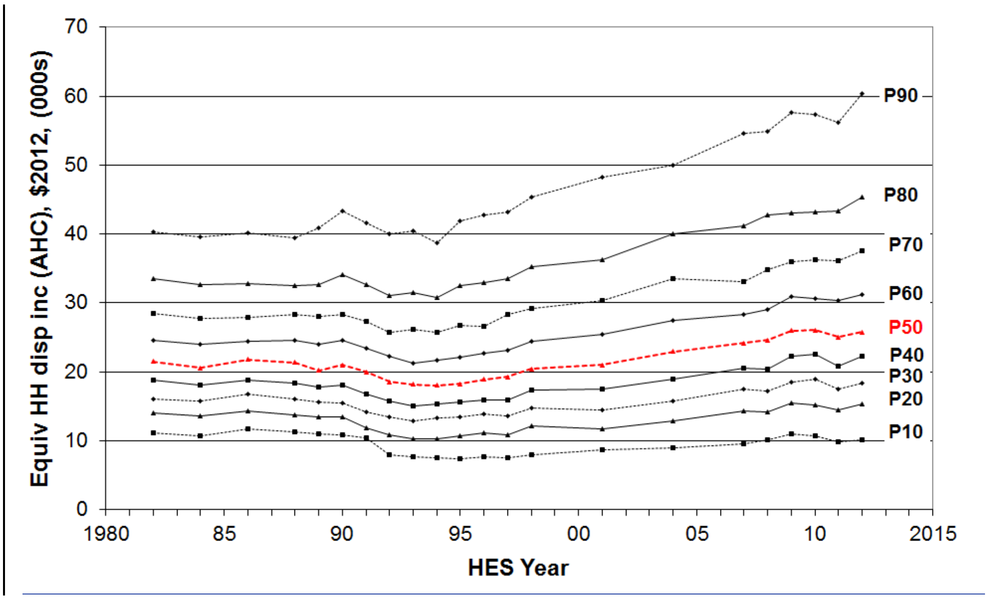
Source: Bryan Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2013*, Ministry of Social Development July 2014, p.253, Appendix 9 Table 9.2. Online at https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html .



Source: table above.

Because housing costs have eaten up a rising share of low-income households' incomes, the situation shown by the AHC chart below is substantially worse. The real income of the P10 group after housing costs in 2012 was 8% lower than in 1982 (from $11,100 to $10,200), and that of the P20 group was only 9% higher (from $14,000 to $15,200). Meantime the AHC real income of the top (P90) group rose 50% from 1982 to 2012, and they took only a 2% hit in the 1990s recession compared to income falls between 15% and 34% for the bottom 50%.

Real equivalised household incomes <u>after</u> housing costs: decile boundaries, 1982 to 2012



Source: Bryan Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2012 Revised Tables and Figures*, Ministry of Social Development, 27 February 2014, https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/household-income-report/revised-tables-and-graphs.doc , p.7.

Real income changes by decile boundary 1982-2012

	% change 1982-2012		% change 1988-1994	
	Before housing costs	After housing costs	Before housing costs	After housing costs
P90	40.4	49.9	-0.6	-1.8
P80	30.8	34.8	-5.5	-5.2
P70	25.8	31.6	-9.8	-9.2
P60	22.0	26.8	-12.7	-11.8
P50	19.9	20.1	-14.6	-15.5
P40	22.2	18.7	-17.6	-16.8
P30	21.2	13.7	-18.6	-17.4
P20	15.7	8.6	-15.7	-24.8
P10	13.9	-8.1	-20.4	-33.6

To summarise, in real terms, after allowing for increases in house prices and rentals, between 1982 and 2012 the real disposable income of people between the top 10% and the next 10% of households (the "P90") increased by 50% while that of the best-off people in the bottom 10% of households ("P10") fell by 8%.

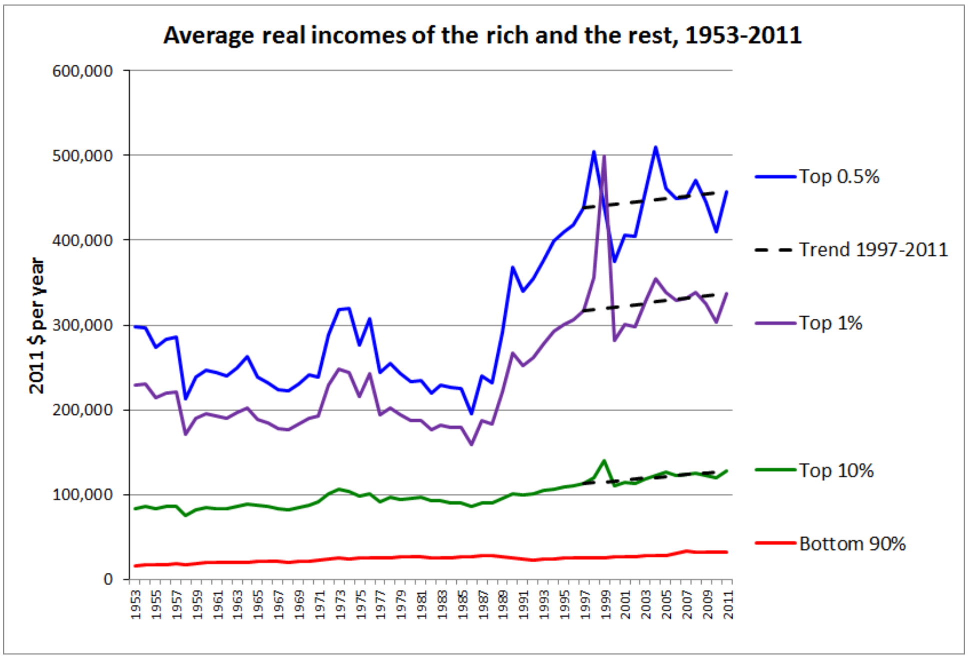
Top Incomes: the 1% and the 10%

In looking at the Ministry of Social Development's statistics on incomes at the top of the distribution, it has to be borne in mind that surveys don't capture the very top incomes well, and that capital gains are not captured by the Household Economic Survey which is used for most of these analyses. Because capital gains are not taxed, they are not included in tax records which are used to get data on very high income individuals. In addition, many high income households make use of trusts to hold their assets and collect their income, and this practice has been increasing. Statistics New Zealand estimates that the incomes of households whose main income is in the form of dividends, interest and so on from capital or property would almost double if trust income was included. So income from high income households and individuals is likely to be significantly underestimated.

A more detailed focus on long-run trends at the top is provided by the World Top Incomes Database which assembles tax data for income declared to the IRD. The chart below tracks the real pre-tax incomes of the top 0.5%, 1%, and 10% compared with the bottom 90% (that is, the great mass of New Zealanders) from 1953 to 2011. This shows that while the mass of the population were suffering falling real incomes 1987-1997 during the neoliberal "reform" period, the top income recipients were enjoying an unprecedented boom. The real income of the top 5% rose 50%; that of the top 1% rose 90%; that of the top 0.5% more than doubled. The trend lines from 1997 to 2011 are drawn to "see through" the huge ups and downs in the declared incomes of top taxpayers as they shifted income to avoid higher taxes under Labour after the 1999 election[10].

Since 2000, average incomes at the very top appear to have stabilised (but the absence of capital gains and trust income, both of which have been rising, means that the trend is almost certainly deceptive).

10 Atkinson and Leigh state: "anticipation of tax changes is likely to have caused the sharp spike in top income shares is observed in 1998-9, and may have caused the 2000 figure to be depressed. Since these observations are clearly misleading, in some of the following analysis we omit the years 1998, 1999 and 2000." Atkinson, A. B., & Leigh, A. (2005). *The Distribution of Top Incomes in New Zealand* (CEPR Discussion Papers No. 503). Centre for Economic Policy Research, Research School of Economics, Australian National University. Retrieved from http://ideas.repec.org/p/auu/dpaper/503.html .



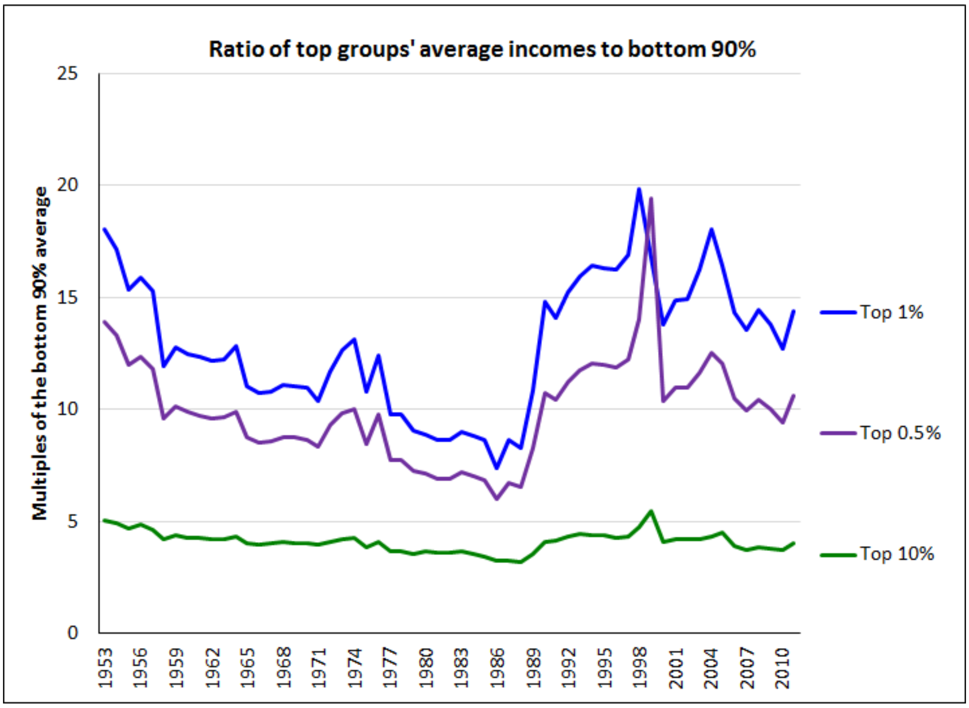
Source: constructed from World Top Income database at
http://topincomes.g-mond.parisschoolofeconomics.eu/#Database: accessed May 2014.

Average real pre-tax incomes of named groups and ratio to income of the bottom 90%

	1982 $	Multiple	2000 $	Multiple	2011 $	Multiple
Top 0.5%	220,004	8.6	375,291	13.8	457,255	14.4
Top 1%	176,771	6.9	282,030	10.4	336,851	10.6
Top 5%	111,092	4.4	145,507	5.3	170,116	5.3
Top 10%	92,475	3.6	111,074	4.1	127,924	4.0
Bottom 90%	25,525	1.0	27,233	1.0	31,823	1.0

The figures from the Piketty database in the table above show the top 0.5% in 2011 receiving 14 times as much as the bottom 90%, up from 8.6 times in 1982. The top 1% received 11 times the 2011 income of the bottom 90%, the top 5% five times, and the top 10% four times.

The chart below shows how the ratio of top incomes to those of the bottom 90% of the population have evolved since 1953. It is clear that up until the mid-1980s the very top income groups – the 1% and the 0.5% - had rapidly declining multiples of the average income of the wider population, but that from then until 2000 their incomes rocketed away relative to the rest. From 2000 until the Global Financial crisis there was an underlying downward trend which shows signs of reversing in 2011, but as noted above the decline may be simply due to increased under-reporting of top incomes associated with trusts and taking income as untaxed capital gains.



The second source for comparing incomes is Perry's data for disposable incomes in 2012:

Disposable (after-tax) income at decile boundaries, 2012

Before housing costs

		1982			2012		
	Perry's name for the income level	Income before housing costs 2012 $	Multiple of bottom 10%	Multiple of the median	Income before housing costs 2012 $	Multiple of bottom 10%	Multiple of the median
10% are above this, 90% below	P90	49,000	3.2	1.8	68,800	4.0	2.1
20% are above this, 80% below	P80	41,200	2.7	1.5	53,900	3.1	1.7
30% are above this, 70% below	P70	35,700	2.4	1.3	44,900	2.6	1.4
40% are above this, 60% below	P60	31,300	2.1	1.2	38,200	2.2	1.2
50% are above this, 50% below	P50	27,200	1.8	1.0	32,600	1.9	1.0
60% are above this, 40% below	P40	23,900	1.6	0.9	29,200	1.7	0.9
70% are above this, 30% below	P30	20,800	1.4	0.8	25,200	1.5	0.8
80% are above this, 20% below	P20	17,800	1.2	0.7	20,600	1.2	0.6
Bottom 10% are below this	P10	15,100	1.0	0.6	17,200	1.0	0.5

After housing costs

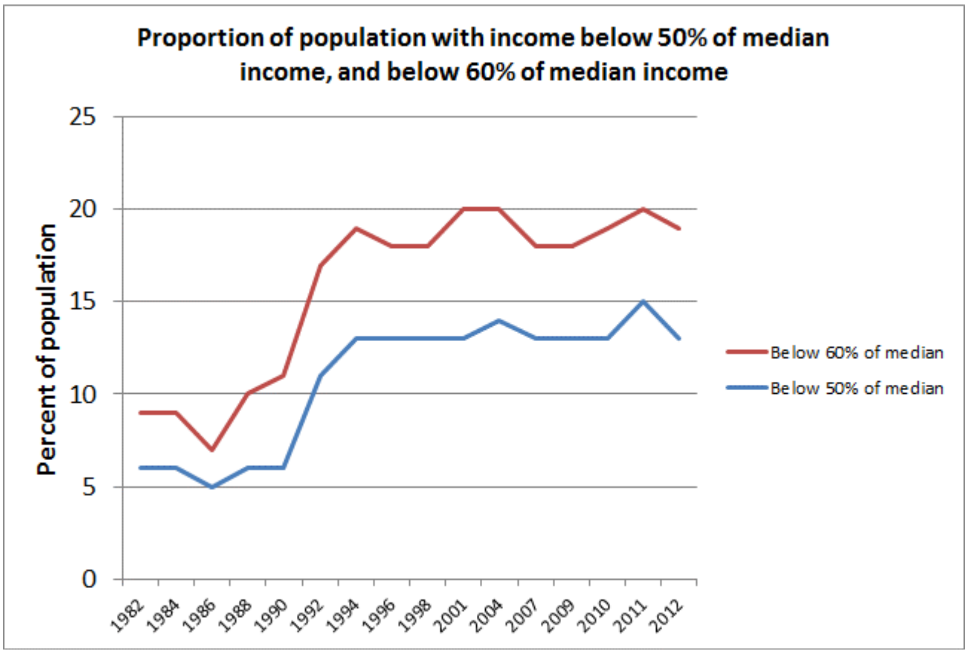
		1982			2012		
	Perry's name for the income level	Income after housing costs 2012 $	Multiple of bottom 10%	Multiple of the median	Income after housing costs 2012 $	Multiple of bottom 10%	Multiple of the median
10% are above this, 90% below	P90	40,300	3.6	1.9	60,400	5.9	2.4
20% are above this, 80% below	P80	33,600	3.0	1.6	45,300	4.4	1.8
30% are above this, 70% below	P70	28,500	2.6	1.3	37,500	3.7	1.5
40% are above this, 60% below	P60	24,600	2.2	1.1	31,200	3.1	1.2

50% are above this, 50% below	P50	21,400	1.9	1.0	25,700	2.5	1.0
60% are above this, 40% below	P40	18,700	1.7	0.9	22,200	2.2	0.9
70% are above this, 30% below	P30	16,100	1.5	0.8	18,300	1.8	0.7
80% are above this, 20% below	P20	14,000	1.3	0.7	15,200	1.5	0.6
Bottom 10% are below this	P10	11,100	1.0	0.5	10,200	1.0	0.4

These figures show that in 2012 people between the top 10% and the rest of the income distribution received four times the average income of those between the bottom 10% and the rest, which increases to nearly six times after allowing for housing costs. These are significantly smaller multiples than those provided by the Picketty database because Perry does not provide average income figures for the very top income groups, and because Perry's figures are for after-tax disposable income whereas Picketty's are for pre-tax income.

Poverty

One standard measure of poverty is the proportion of the population receiving less than some threshold level – for example, 50% of the median household income after adjusting for housing costs. Here the sharp increase in poverty induced by neoliberal policy – especially the 1991 Budget cuts to benefit levels, and the downward pressure on wages accompanying the Employment Contracts Act, is immediately apparent. There were slight falls in poverty in the mid-2000s following Working for Families, but an upward jump following the 2010 Budget tax switch.



Source: Constructed from Bryan Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2012 Revised Tables and Figures*, Ministry of Social Development, 27 February 2014, https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/household-income-report/revised-tables-and-graphs.doc, p.12 Table F.4.

Easton is critical of measuring poverty in this way because poverty can seem to be reduced by transferring income from the middle to the top, lowering the median. He prefers the benchmark set by the 1972 Royal Commission on Social Security which stated that a family's income ought to be sufficient

i. First, to enable everyone *to sustain life and health*

ii. Second, to ensure, within limitations which may be imposed by physical or other disabilities, that everyone is able to enjoy a standard of living much like that of the rest of the community, and thus is able to feel *a sense of participation in and belonging to the community* (Royal Commission 1972 p.65, italics in original).

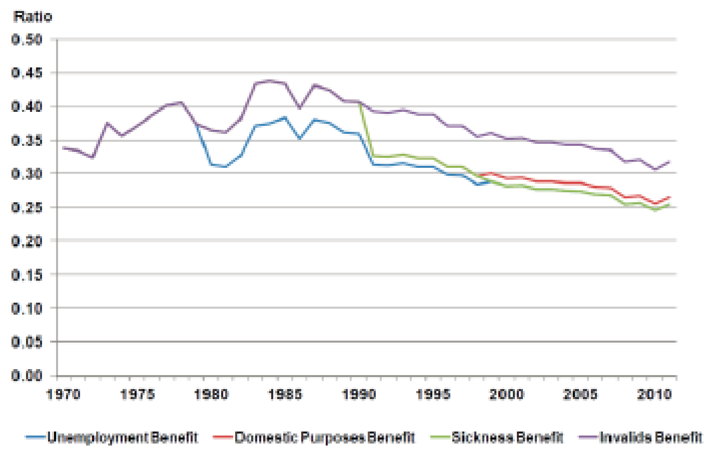
Against these benchmarks, Easton highlights[11] the extent to which the 1991 benefit cuts dragged benefit levels below the level required to enable full participation. The 1991 Budget intended to provide benefits only "sufficient to enable the sustaining of life and health", but arguably fell short even of that standard, leaving beneficiaries condemned to poverty. Easton states:

> "The majority of the poor are parents with jobs and their children (although they may have had only one or two), living in their own home albeit usually with a mortgage. The proportion in poverty is higher among solo parents, those without jobs, living in rental accommodation and with a brown ethnicity (but there are fewer of each category). More women than men are poor. While the incidence of poverty is higher among Maori and Pasifika, there are more poor who are not of their ethnicity. The salient conclusion from the research is that over 80 percent of the poor are children and their parents (and others in their households) and that proportionally more children are in poverty than adults (especially those adults who are not parents)."

Benefit levels

For beneficiaries, the sharp cuts in income in the "Mother of all Budgets" in 1991 were only the start: they have been tied to CPI inflation ever since and so have fallen further and further behind wages:

Ratio of benefit payments to net average weekly wages



Source: New Zealand Treasury. (2013). *Working-Age (Non-NZS) Welfare* (Draft Paper for the Long-Term Fiscal External Panel). Wellington, New Zealand: The Treasury. Retrieved from http://www.treasury.govt.nz/government/longterm/externalpanel/pdfs/ltfep-s3-03.pdf

According to an OECD comparison of 21 member countries[12], in the 1960s New Zealand had among the highest benefit levels in the OECD compared to average wages, but it was one of the few that fell between 1960 and 2005 – and fell the most. By 2012 (the latest date available), New Zealand had at or near the lowest benefits compared to average wages among 33 OECD members: for example it ranked between 31 and 33 (last) for a two-earner couple with two children.

NBR Rich List

Rising inequality is not just a matter of income: it is a matter also of wealth, which in part is accumulated out of saved income. Shifting the income distribution once-for-all in favour of the rich can be expected to result in a long-run process of wealth concentration at the top of the income pyramid as higher incomes are saved and invested. Simply stabilising the income distribution at its 1994 level leaves the rich with higher incomes from which they can continued to accumulate rising wealth so long as the income distribution is not shifted back.

11 Easton 2013 pp.49-50.

12 See the spreadsheets at http://www.oecd.org/els/benefitsandwagesstatistics.htm, accessed 20 February 2014.

The NBR Rich List has been produced each year from 1986. In that time the total net worth of individuals on the list has risen from $12 billion to $60 billion, in 2013 dollar terms (using the CPI). The chart below tracks the rise, which got underway only after the big income distribution shift about 1990, but then accelerated steadily through to the Global Financial Crisis in 2008. The comparison of this rough indicator of the wealth of the very top echelon of the rich makes clear how the abrupt shift of income distribution towards the rich produced a long-term accelerating accumulation of rising wealth over the following decades. The List has no statistical status – but it is one of the very few attempts to track wealth trends in New Zealand over recent decades. From 1990 to 2013 it grew 12% per annum cumulatively in real terms. Returns on this rising stock of wealth would have risen at a similar rate, with a short-lived slump during the GFC.