



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 104 (July 2009)

High inequality – not only unfair but inefficient

If there is a single theme that has run through the history of the labour movement it is fairness, including a dislike of high levels of inequality whether of income or of power. And many early settlers from Europe came here to get away from extremes of inequality.

There is increasing evidence that people are built to dislike unfair shares. For example in an experiment called the Ultimatum Game that surprised economists who believed people were simply self-interested, a person (the “proposer”) was given some money (say \$10) and told that he and a second person (the “responder”) could keep the money if the responder agreed to the way the proposer offered to share it. If the responder rejected the offer, neither would get anything. If people are indeed simply self-interested, responders would accept just one cent, on the basis that was better than nothing, and proposers would offer no more than that. Apparently chimpanzees do behave like that! But human responders regularly reject such miserly offers even though it means they get nothing. Proposers on average offer a little under half of the money. Fairness is in some way hard wired into humans.

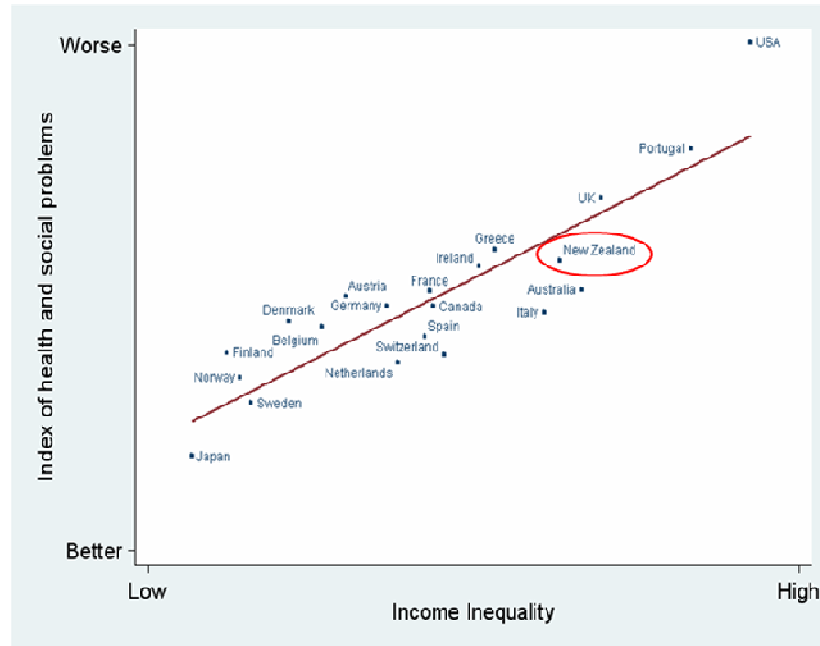
There is now evidence that the consequences of inequality are considerably more than offending most of our senses of fair play. A large number of social and health problems are worse in societies in which income is more unequally shared. For example, levels of violent crime are higher in more unequal societies, so are imprisonment rates, infant mortality, mental illness, obesity, teenage births, dropping out early from school and underachievement measured by adult literacy rates.

This evidence is presented in a recent book, “The Spirit Level: Why More Equal Societies Almost Always Do Better”, by Richard Wilkinson and Kate Pickett (publ. Allen Lane, 2009), in which the graph below appears (it is available from their web site <http://www.equalitytrust.org.uk/>). The authors are health researchers who discovered these results in a surprising number of areas of health. Their research led them to discover that the same applied in many other areas of society: “we became aware that almost all problems which are more common at the bottom of the social ladder are more common

in more unequal societies”. They describe such problems as having a “social gradient”.

Health and Social Problems are Worse in More Unequal Countries

- Index of:**
- Life expectancy
 - Math & Literacy
 - Infant mortality
 - Homicides
 - Imprisonment
 - Teenage births
 - Trust
 - Obesity
 - Mental illness – incl. drug & alcohol addiction
 - Social mobility



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk Equality Trust

It is vital to be clear what they are saying. Very unequal societies do have more people in poverty, so we would expect such societies to have more low income people afflicted by these problems. But it is not just people in poverty who suffer more from these problems in more unequal societies. Almost everyone does, right up the income and status ladder. For example, comparing rates of diabetes, hypertension, cancer, lung disease and heart disease between the US (the most unequal society in their study) and England (also very unequal, but less so than the US) shows US people are worse off whether we compare people at low, medium or high educational levels. Finland, Belgium, the UK and the US are in order of decreasing equality. The literacy levels of adults in the four societies also decrease in that order – across all levels of educational achievement of their parents. Wilkinson and Pickett give many other examples, all statistically tested, both between countries and between states of the US. Just about everyone loses from inequality and benefits from greater equality. “Inequality is a pollutant because it affects everyone”, says Wilkinson.

Perhaps these differences are just a result of some countries (like the US or Norway) being higher income than others (like Greece or New Zealand)? Wilkinson and Pickett have a two-part answer to this. Of course higher incomes do matter. The health, literacy, life expectancy and many other

measures of wellbeing of people in Zambia or Uganda are far below those of New Zealand or the US. But what the authors demonstrate is that higher incomes only go so far in improving wellbeing. At some level – and they provide evidence suggesting that most of today’s high income countries are above that level – further increases in average income do relatively little to improve wellbeing and that in fact inequality becomes more important. The gain of an extra dollar in income at some point is of comparatively little value in improving people’s wellbeing measured by outcomes such as life expectancy and their own assessment of their happiness. It is much more productive – an economist would say efficient – to focus on reducing inequality.

Their book looks only at relatively rich countries – 23 of the 50 richest in the world chosen to have over 3 million people and good information on inequality. New Zealand is one of the 23. They also compare the 50 states of the US. Even within this group, the richest nation (the US) has twice the national income per person of the one with the lowest income (Portugal). Yet these two score worst of the 23 on an index of health and social problems. Medium-income Sweden and Japan score best. You will probably have guessed. The US and Portugal are the most unequal societies studied; Sweden and Japan are among the four least unequal. Wilkinson and Pickett are able to conclude that “health and social problems are only weakly related to national average income among rich countries”, and have similar findings for the states of the US. They can show on the other hand that there is a strong relationship to inequality.

Wilkinson and Pickett explore what might be the underlying reasons for inequality leading to such destructive outcomes. It might be summarised as “the rat race is bad for our wellbeing” but is more sophisticated than that. Their recommendations are not that we should have completely equal societies. They are that we should make a priority of working towards greater income equality and giving people greater control of their lives. Their web site contains videos, papers and other resources and its summary of possible remedies includes:

As well as more progressive income and property taxes and more generous benefits, we also need policies to reduce differences in incomes before taxes and benefits. That means higher minimum wages, more generous pensions, running the national economy with low levels of unemployment, better education and retraining policies, increasing the bargaining power of trade unions.

This seems like an old idea, well rooted in the founding beliefs of Aotearoa/New Zealand and the union movement. But it is actually a new one with scientific foundations and radical implications. It suggests that New Zealand – and rapidly rising inequality in the 1980-90s made us one of the most unequal societies in the world – will make more efficient and effective use of its resources when they are more equally distributed. While more money can fix some things (particularly problems without a “social gradient”), many important problems will not be resolved at current levels of inequality.

The best use of our resources is to redistribute them rather than pour money into problems which thrive on inequality. This is a particularly appropriate message at a time when the global financial crisis has demonstrated the failure of economic policies which favoured leaving “the market” to amass wealth for a small minority, and when environmental pressures are taking us to the limits of economic growth.



Difficult times

Despite talk of “green shoots” and “turnarounds” in the media we scarcely need to remind ourselves that these have not been seen for workers. Treasury forecasts (which have not been revised) are still for 8 percent unemployment – 180,000 people looking for work – by the third quarter of next year and only slow improvement after that. The exchange rate and longer term interest rates are at levels which discourage exports and investment. The “green shoot” talk needs to be treated with scepticism. There are still big unknowns and difficulties internationally, with international trade still in a deep trough, large numbers of housing foreclosures in the US, and rising unemployment in many countries: 17.4 percent in Spain, 9.5 percent in the US and 8.2 percent in the UK for example. We await with concern our own unemployment figures for the June quarter, out on 6 August, given the background of rapidly increasing numbers – net 1200-1300 a week – going onto the unemployment benefit. At least prices are not rising as fast as they were at 1.9 percent in the year to the June quarter, but many people will still be feeling the pain of increases in food prices, which were 7.5 percent in the same period.

NZIER Consensus Forecasts¹

These consensus forecasts were published on 23 June 2009.

March Year Percent Change	2009	2010	2011
GDP	-1.0	-1.6	2.8
CPI	3.0	1.6	1.6
Private Sector Wages (QES)	5.2	2.6	1.7
Employment	0.8	-2.7	0.8
Unemployment	5.0	7.2	7.2

Economic Snapshot

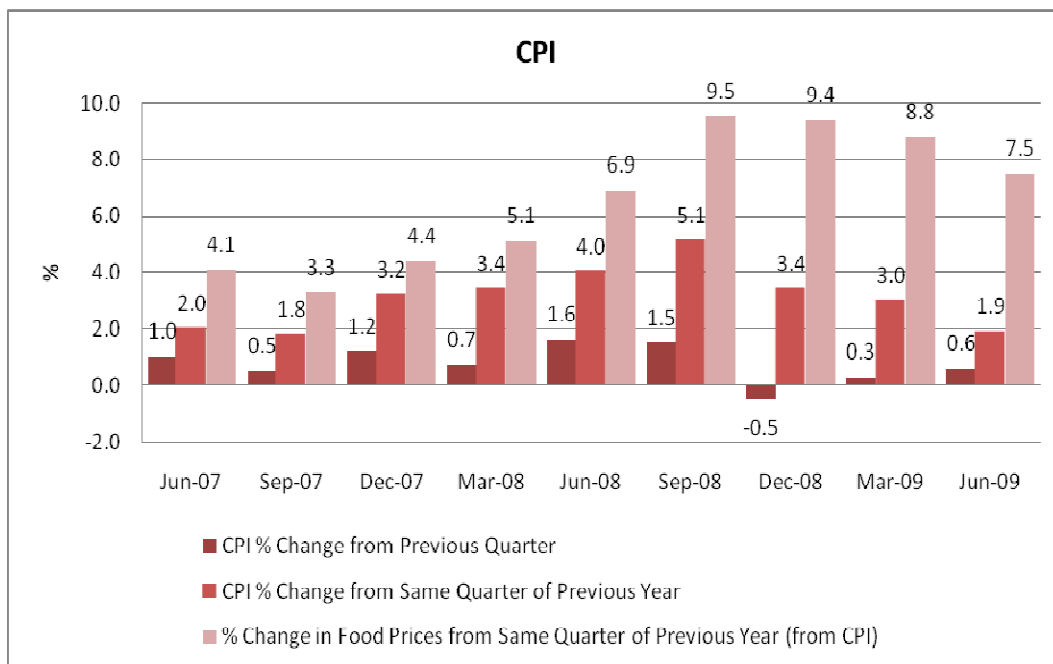
The Consumer Price Index rose by 1.9 percent for the year to the June 2009 quarter. Food prices have risen 8.4 percent over the year to the month of June. The unemployment figure is at a five year high of 5.0 percent. Maori unemployment is 11.9 percent, Pacific people's unemployment is at 13.1 percent, and Asian unemployment is at 6.6 percent, compared with 3.8 percent for European/Pakeha. Youth unemployment is just under 20 percent and the unemployment rate for those aged 20 to 24 is at 12 percent. The next release of unemployment statistics is on 6 August. In June 2009, 50,855 people were on unemployment benefits and this figure is increasing by approximately 1,200 people every week. The number of people in employment decreased in the March quarter by 24,000 (1.1 percent), to a total of 2,182,000. GDP decreased by 1.0 percent in the March 2009 quarter, the fifth consecutive decline. In annual terms GDP also decreased by 1.0 percent. The minimum wage is \$12.50 an hour and \$10.00 an hour for new entrants aged 16 or 17 in their first 3 months or 200 hours, whichever ends first. In comparison, the minimum wage in Australia (that was left unchanged this month by its Fair Pay Commission) is AUS \$543.78 a week compared to the equivalent of NZ\$500.00 a week in NZ (based on a 40 hour week). Ordinary time hourly wages, as measured by the Quarterly Employment Survey (QES) for March 2009, were up annually by 5.3 percent (5.0 percent in the private sector and 4.4 percent in the public sector). The QES showed that the average hourly wage is now \$24.89 (\$23.08 in the private sector and \$31.94 in the public sector). The female rate of pay is \$23.18 which is 87.6 percent of the male wage of \$26.32. The Labour Cost Index (LCI) shows that ordinary time wages went up by 3.4 percent in the March 2009 year (3.0 percent in the private sector and 4.3 percent in the public sector). For those workers who received a pay rise in the year, the median increase was 4.2 percent and the average increase was 5.7 percent. The next release of the QES and LCI is on

¹ The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. Because the consensus forecasts are done only every 3 months, some of the more recent forecasts will be more accurate.

4 August. On 30 July the Reserve Bank of NZ left the official cash rate unchanged for the second review in a row at 2.5 percent.

Consumer Price Index

Consumer prices rose 1.9 percent in the year to June 2009 and 0.6 percent for the June quarter. This is the lowest annual increase since September 2007, but is slightly higher than expected (the Reserve Bank had forecast 1.7 percent for example). It is a significant fall from the 3.0 percent recorded in the year to March 2009. The most significant annual contributions came from a 7.5 percent increase in food prices, which accounted for two-thirds of the overall CPI increase. Housing and household utility prices rose 2.8 percent, which was its lowest annual increase since the year to March 2002, whilst housing rentals were up 1.7 percent. Other significant individual upward contributions came from electricity (up 5.4 percent), and local authority rates and payments (up 5.7 percent). The most significant downward movements over the year were from a 6.6 percent fall in transport, marked by a 17.0 percent decline in petrol prices and 20.7 percent decline in international air transport.



Food Prices

Statistics NZ's monthly food price index for the year to June 2009 showed an 8.4 percent² increase in food prices, up from the 6.8 percent recorded in the year to May 2009. Grocery foods were up 7.9 percent for the year, meat, poultry and fish was up 12.1 percent, fruit and vegetables up 12.7 percent,

² This figure varies slightly from the CPI food prices as it is measured on a monthly basis as opposed to the CPI that is measured on a quarterly basis.

restaurant meals and ready-to-eat food up 4.3 percent, and non-alcoholic beverages were up 7.3 percent. The price of bread has risen by 14.5 percent alone. However cheddar cheese was down 16.4 percent for the year and butter fell in price by 19.9 percent. The monthly change from May 2009 to June 2009 was a 2.8 percent increase. Fruit and vegetable prices stood out, rising 15.0 percent for the month, whereas still sizable rises were noticed in groceries, up 1.1 percent, and meat, poultry and fish prices, up 2.1 percent.

Unemployment Benefit

There were 50,885 people on unemployment benefits at the end of June 2009, which is 33,000 more people than there were in June 2008. Since this time last year there are also 8000 more people receiving the DBP, nearly 2000 more people receiving the invalids' benefits, and over 8000 more people receive the sickness benefit. All rises can be partly attributed to the increase in unemployment. 72 percent of beneficiaries were male, which is a considerable increase from the 65.5 percent recorded back in June 2004. If broken down by age groups, 32.8 percent were in 18-24 category, 32.8 in the 25-39 category, and 34.3 percent were in the 40-64 age group. Nearly 2 percent of the working age population (18-64) is now receiving benefits. This compares with an unemployment rate of 5 percent for the March quarter. The discrepancy between beneficiaries and this rate is partly due to an income cap on unemployment benefits of \$80 per couple per week (before tax), after which 70c for each dollar over the \$80 limit is deducted, which limits uptake.

Trade

For the June 2009 quarter, seasonally adjusted exports were down 5.4 percent to \$10.2 billion, following a 5.0 percent decrease in the March quarter. However, annual exports were still up 7.5% year on year. And after a 13.7 percent fall in the previous quarter, seasonally adjusted imports were down 3.4 percent (to \$10.4 billion) for the June quarter, which is a 15.6 percent fall compared to the same quarter in 2008, though annual imports have risen 3.8% year on year, leaving a \$3.2 billion trade deficit for the year to June. There was a \$217 million trade deficit for the quarter, equivalent to 2.1 percent of exports. Statistics NZ say that the one-off import of aircraft by Jetstar, valued at \$571 million, was the primary cause of this deficit. Otherwise there would have been a seasonally adjusted surplus of \$354 million for the quarter, something there has not been since December 2001. Other marked results for imports in the quarter include a 12.6 percent fall (\$634 million) in intermediate goods (goods used in industrial production processes), a 14.8 percent decline in machinery and plant equipment (\$262 million), as well as 2.7 percent fall in consumption goods (\$78 million). The decline in intermediate and equipment signals a sharp decline in production in the economy. The largest falls in export values were seen in Casein and caseinates (milk proteins), down 21.9 percent (\$64 million), and dairy products (milk powders, cheese and butter) that fell by 1.9 percent (\$40 million), despite increases in export quantities, reflecting falling prices. Meat products were also down by 4.2 percent (\$59 million) along with most other export commodities. Crude oil exports were up 63.6 percent (\$162 million) after an increase in volumes as a result of

production at Tui oil field. The Trade Weighted Index showed that the NZ dollar increased 8.7 percent in the June 2009 quarter, but is still 15.7 percent lower than it was for the same period in 2008.

Manufacturing Sector

The Performance of Manufacturing Index for June 2009 recovered slightly to 46.2³, up from 42.7 in May, but this still indicates contracting manufacturing activity. Despite improvement in production (47.6) and new orders rising to 52.2, from a poor 41.6 in May, the employment index slipped even further backwards (40.1). Metal products recorded another poor result (37.8), whereas petroleum, coal, chemical & associated products improved substantially (47.4), and the food, beverage & tobacco sector (51.8) continued to expand. Apart from the Northern region, activity in all other regions improved.

Service Sector

According to the Performance of Services Index (PSI), the service sector contracted for the fifteenth month in a row in June 2009 recording a figure of 45.0⁴, down from 46.2 in May. New orders recorded a positive value of 50.8, the sales index remained at 43.9, whilst employment fell to 43.6 after the small gains that were made in the previous month. Stocks/inventories and deliveries both dropped to new lows of 41.0 and 42.2 respectively. The lowest results for the sub-sectors were recorded in transport and storage (35.3), retail trade (44.3) and wholesale trade (45.9), whilst health & community services (48.6) and accommodation, cafes & restaurants (48.4), posted the strongest, yet still negative, activity in the sector.

Government Accounts

The Government's financial statements in the 11 months to the end of May show that overall tax revenue overall was on par with the Budget Economic and Fiscal Update (BEFU) despite corporate tax receipts being \$0.4 billion down as a result of lower than expected private sector profits. Expenses were \$0.4 billion less than BEFU. The operating balance before gains and losses (OBEGAL) stands at \$1.2 billion, \$0.4 billion less than the \$1.6 billion deficit that had been forecast. There was a \$7.2 billion deficit in the operating balance, down on the \$8.4 billion forecast, which came as a result of better than expected investment gains from ACC and the NZ Superfund. The Government's residual cash position was down \$1.0 billion, but this was put down to a late transaction coming in from the IMF. Gross debt stands at \$41.0 billion (\$1.6 billion less than forecast) or 22.8 percent of GDP and net debt stands at \$15.7 billion (\$0.5 billion more than forecast) or 8.7 percent of GDP.

³ A figure under 50 shows the manufacturing industry is contracting; above 50 shows that the industry is growing. The index is an early indicator of business activity

⁴ A figure under 50 shows the service industry is contracting; above 50 shows that the industry is growing. The index is an early indicator of business activity

Migration

For the year to June 2009 there was a net gain of 12,500 migrants, compared to only 4,700 in June 2008. For the month there were 1,900 less permanent and long-term (PLT) departures than in May 2009, which included 1,600 fewer departures to Australia and 400 fewer to the United Kingdom. There was a monthly net gain of 1,700 migrants in June 2009, down on the 2,600 recorded in May 2009. The number of visitors coming to NZ for the year is down by 3 percent compared to the same time last year.

Housing and Property

Property trends data from QV reveal a 7.1 percent decline in residential property values in the year to June 2009; which although negative, is a steady improvement on an 8.1 percent decline in the year to May and a 9.2 percent decline in the year to April. The period between July and October 2008 was responsible for a large chunk of that fall. The average sales price is now sitting at \$378,535, up marginally from the previous month. There were 14,175 new building consents for housing in the year to June 2009, the lowest annual number for a June year since the series began in April 1965, and a fall of 30 percent in value. For the month, the seasonally adjusted number of consents for new housing units fell 9.5 percent but permits for housing other than apartments rose 3.0 percent. However the value of non-residential building consents rose 8 percent over the year, although for the month of June the value was the lowest since September 2007 following two very high months in April and May (the highest since the series began).

Quarterly Survey of Business Opinion

NZIER released their survey of the opinions of business owners in New Zealand this month. It illustrates improved business confidence since the previous two quarterly surveys, but it still reveals a negative outlook. For example, in the 3 months since March, 31 percent of respondents reported that they had cut jobs and 36 percent said their sales or output had fallen. Looking forward, 19 percent of firms said that they intended to cut jobs in the next 3 months, an improvement on the last survey when 36 percent of firms had said they intended to cut back staff and 10 percent of firms expected a decline in business activity. Business said that low sales figures as opposed to lack of access to credit was the key determinant holding their business back. NZIER also commented that companies in general are running much leaner. NZIER predicts that the unemployment rate will rise to 7.8 percent next year.

Retail Sales

Seasonally adjusted retail sales figures for May 2009 increased by 0.8 percent. Core retail sales were up by 1.6 percent, led by a 12.6 percent increase in clothing, put down to a cold May, and a 2.2 percent increase in supermarket sales. Automotive continued its slide with a 1.8 percent decline for the month. Electronic transaction figures for May 2009 corresponded with

a 1.1 percent increase, but the newly released figures for June show a reverse in fortunes, with core retail purchases down 1.2 percent.

Work Stoppages

In the year to March 2009, there were 22 work stoppages, composed of 18 full strikes and 4 partial strikes. There were no lock outs over the year. Statistics NZ said the stoppages concerned 4,944 employees, causing a loss of 8,588 days of work, and costing an estimated \$2.4 million in wages and salaries. The March 2009 figures compare to 26 stoppages in the March 2008 year and 40 in the March 2007 year.

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