

## Peak inequality?

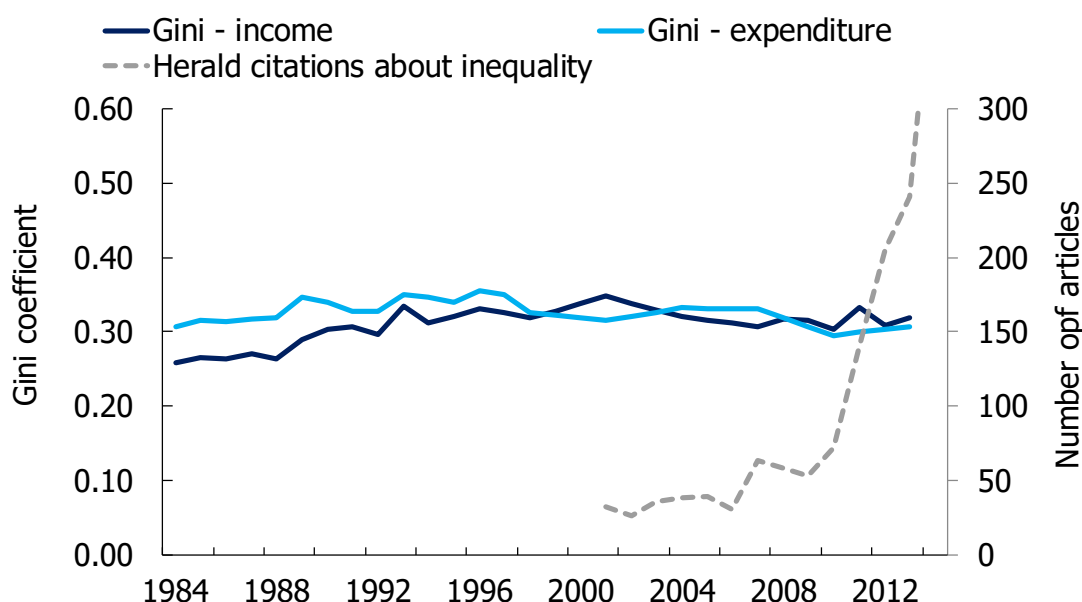
### Peak inequality – New Zealand’s own false truth?

**Kiwis are increasingly concerned about inequality – paradoxically, inequality has barely changed in 20 years**

UMR polling in 2017 suggests Kiwis think that, after housing, inequality and poverty along with immigration are the most important issues facing New Zealand today. The increase in the profile of inequality in opinion surveys follows the decline in concerns since 2010 about the economy and unemployment.<sup>1</sup> Since then, media coverage of inequality has also increased significantly.

Figure 1, courtesy of the New Zealand Initiative,<sup>2</sup> contrasts the actual trends in inequality in income and consumption with the growing prominence of inequality as an issue. Both income and consumption inequality have been broadly static since the mid-1990s. Consumption inequality, which is the best single measure of inequality in wellbeing,<sup>3</sup> is trending slightly downwards. By contrast media coverage (as measured by New Zealand Herald articles mentioning inequality) has increased markedly since 2010. Paradoxically, there seems to be an inverse relationship so that as popular concern about inequality has increased, inequality has been declining!

**Figure 1 Media coverage on inequality contrasts to downward trend in inequality**



Source: New Zealand Initiative

<sup>1</sup> UMR Research. 2016. Annual review: mood of the nation. [http://umr.co.nz/sites/umr/files/final\\_mood\\_of\\_the\\_nation\\_2015\\_released\\_2016\\_0.pdf](http://umr.co.nz/sites/umr/files/final_mood_of_the_nation_2015_released_2016_0.pdf).

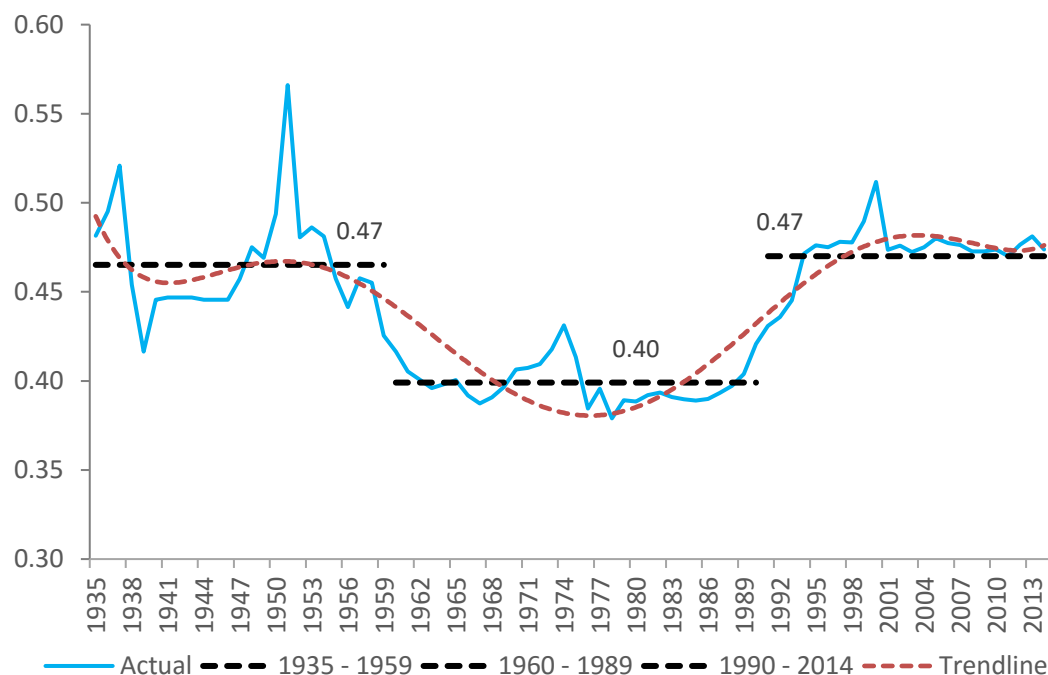
<sup>2</sup> Wilkinson, B. and J. Jeram. 2016. The inequality paradox: why inequality matters even though it has barely changed. The New Zealand Initiative. <https://nzinitiative.org.nz/insights/reports/the-inequality-paradox/> using data from Bryce Edwards and Creedy & Ball.

<sup>3</sup> Carver, T. and A. Grimes. Income or consumption: which better predicts subjective wellbeing? Motu Working Paper 16-12. [http://motu-www.motu.org.nz/wpapers/16\\_12.pdf](http://motu-www.motu.org.nz/wpapers/16_12.pdf).

Figure 1 only shows trends since 1984 as consistent long-term data on income inequality has only been available since the early 1980s. To rectify this, NZIER partnered with VUW to develop longer-term data on inequality. Unfortunately, consistent long-term data on wealth distribution is not available and modelling the income tax system over time is complicated so we focus here on pre-tax or market income data.<sup>4</sup>

## Figure 2 Three distinct phases in inequality

Gini for pre-tax income



Source: <https://data1850.nz/> based on Creedy, Gemmell & Nguyen, 2017

Figure 2 shows the actual series (solid line) which is quite noisy, along with a smoothed trend (dotted line). The actual series includes temporary peaks such as the Korean war boom in 1952-4, when wool prices increased four times virtually overnight. The smoothed trend traces out a saucer – with three distinct phases: a distinct decline from the 1950s until around 1975, an increase in inequality until the early 1990s and thereafter stabilising at levels not seen since the 1930s.

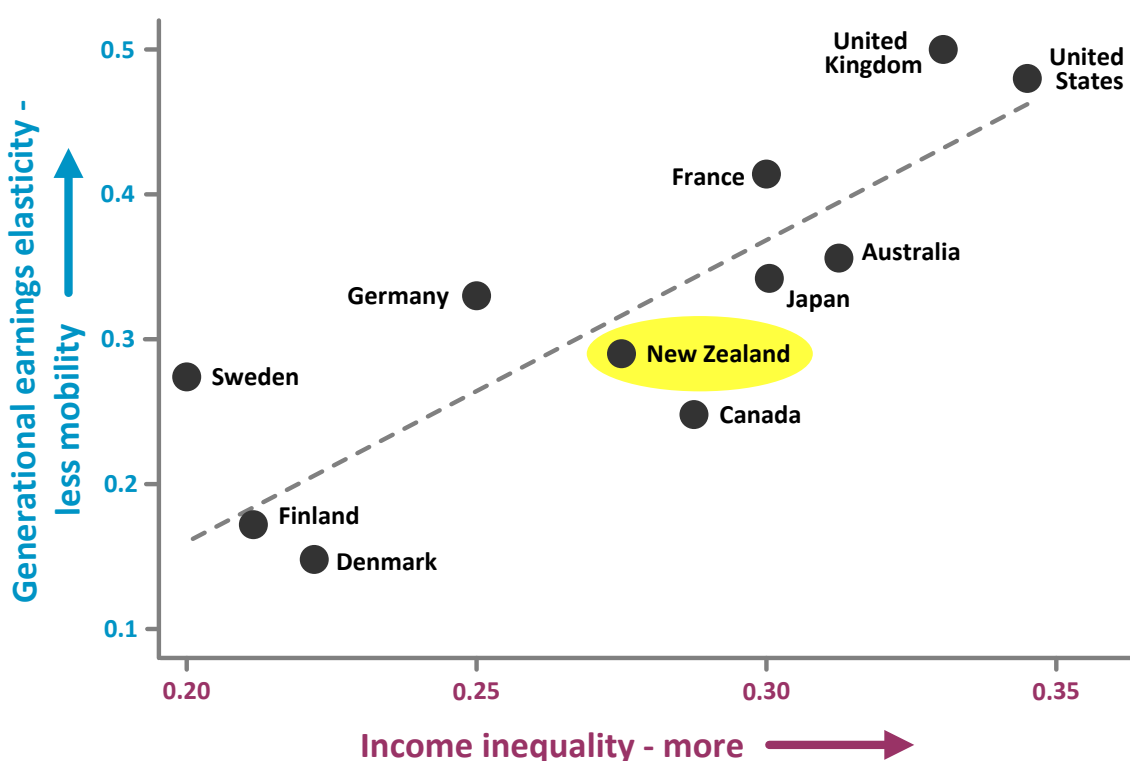
Whether inequality is a problem depends upon how you come at the issue. It is hard to find any people who think inequality is good. Equally it is hard to find any anyone who thinks all inequalities are bad. Adding additional surgeons and other highly skilled people to the workforce would increase inequality. But most Kiwis would see that as a good thing. It is important to understand what factors have driven any changes in inequality to understand whether these are ‘good’ or ‘bad’. Unpacking the drivers of the changes in inequality will be the subject of a separate communication – but the ‘usual suspects’ include changes in unemployment, hours worked and dispersion in wage rates.

<sup>4</sup> Creedy, J., N. Gemmell and L. Nguyen. 2017. Income inequality in New Zealand, 1935 – 2014. VUW Working Papers in Public Finance 07/2017 [http://www.victoria.ac.nz/sacli/centres-and-institutes/cpf/publications/pdfs/WP\\_07\\_2017\\_Income\\_Inequality\\_in\\_New\\_Zealand.pdf](http://www.victoria.ac.nz/sacli/centres-and-institutes/cpf/publications/pdfs/WP_07_2017_Income_Inequality_in_New_Zealand.pdf).

**New Zealand is in the middle of the pack internationally**

Figure 3 shows where New Zealand sits compared to a range of OECD countries. It includes two inequality measures – the extent of income inequality at a point in time (measured by the Gini coefficient) on the horizontal axis and income mobility over time (measured by the probability of moving between levels over a generation) on the vertical axis. With low income mobility, people in rich families stay rich and poor stay poor. New Zealand sits in the middle of the range with reasonably high levels of upward and downward mobility over time but also a core of people stuck in lower deciles who experience cycles of disadvantage. New Zealand compares favourably with say the UK and Australia with higher levels of income mobility between generations and less inequality, but does less well than the Scandinavian countries.

**Figure 3 New Zealand sits in the middle on inequality amongst OECD countries**



Source: Mendolia and Siminski<sup>5</sup>

There is a widespread perception that inequality in New Zealand is increasing and that is a bad thing. We have focused here on what the data shows about trends in pre-tax income inequality. The data shows that while income inequality did increase significantly from the mid-1970s to the mid-1990s, it has not increased over the last 20 years. The widespread notion that inequality in market incomes is increasing is a false truth. If you don't believe it check it out for yourself – the data on long-term income inequality, along with a range of other long-term economic series, are all available on line at <https://data1850.nz/>.

**What Kiwis care about and what inequality measures capture aren't the same thing**

The increasing concern in opinion surveys about measured income inequality appears to reflect concerns about how our society might be changing in other ways. One of these concerns relates to poverty. The Ministry of Social

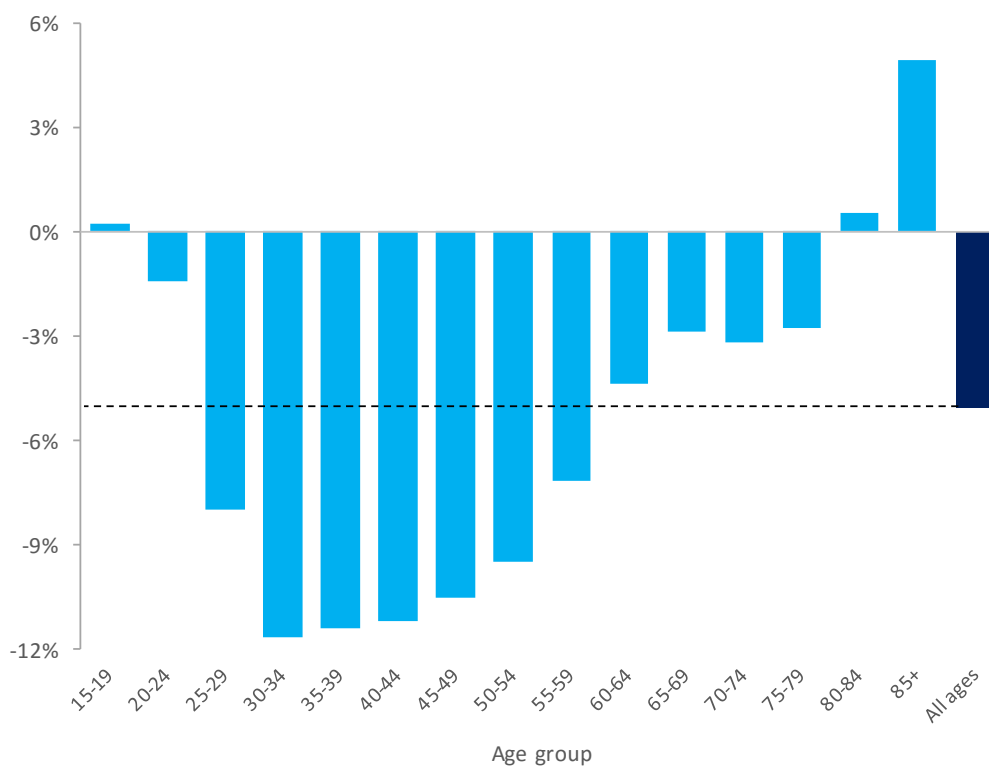
<sup>5</sup> Mendolia, S. and P. Siminski. 2016. New Estimates of Intergenerational Mobility in Australia. *Economic Record* 92 (298): 361–373. doi:10.1111/1475-4932.12274.

Development’s Living Standards Research provides a range of data on poverty. It highlights that while New Zealand has relatively low material deprivation rates amongst people over 65, our deprivation rates in households with children are relatively high compared to other OECD countries in Europe.<sup>6</sup>

Another trend driving surveyed concerns about inequality is the increase in house prices and the resulting fall in rates of home ownership. Figure 4 shows ownership rates decreased from 55% to 50% between 2001 and 2013. It highlights the fall has occurred across the whole of the working age population. It also suggests the fall in home ownership rates are not just concentrated in a single cohort but that many people in the working age population have found it much harder to achieve their home ownership goals. Like the trends in income inequality more generally, data on home ownership rates don’t support simple beliefs about winners and losers.

### Figure 4 Comparing the change in home ownership from 2001 to 2013

Change in percentage of people that reside in a home they own in 2013 compared to 2001



Source: NZIER, Statistics Census 2001 and 2013

You’ll miss the story behind the numbers if you only look at a single measure like income inequality. Understanding how New Zealand is changing and what that might mean for future generations requires a robust long-term evidence base.

New Zealand Institute of Economic Research has been preparing linked economic data about New Zealand covering the period since 1850. [Data1850](#) provides valuable information about the country’s past economic performance, and helps people consider the future. The development of Data1850 was funded as part of NZIER’s Public Good programme. The programme aims to promote a better understanding of New Zealand’s important economic challenges and opportunities.

<sup>6</sup> Ministry of Social Development. Living Standards Research. <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/living-standards/index.html>.

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