

Inequality: Causes and Cures

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Outline of Presentation

- Causes of changes in inequality
 - Global context of inequality change
 - Ben Gleisner looked trends in inequality, and
 - Cumulative impact on health and other social outcomes

- Policy options:

Range from: full employment to tax cuts, benefits in kind, benefit levels & family assistance, wage levels, welfare to work schemes etc.

- Need combination of these options to address increasing inequality [inequality reduced 2000-2008]
- Options analysed by political feasibility, socio-economic effects and cost-effectiveness
 - NOTE: Inequality can be measured by:
 - Income or standards of living (ELSI, MSD),
 - Earnings, market income, disposable income, lifetime income or intergeneration income
 - Each gives additional policy options

Context

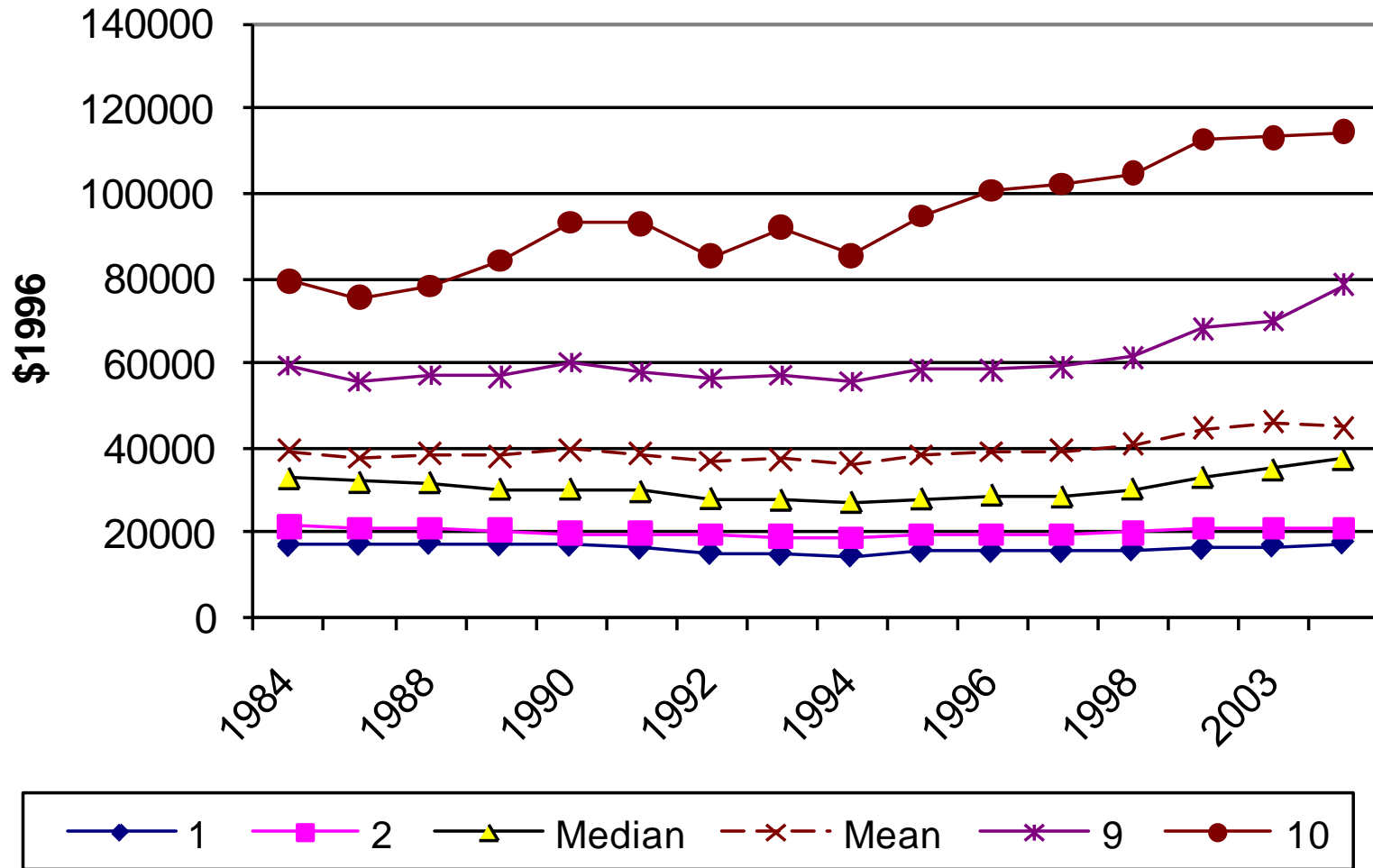
- Changes to inequality set in context of:
 1. Globalisation: economic dimension (trade and production, mobility of capital); political – weakening of power of nation states; cultural – threats to traditions, global products. Excuse for -
 2. Market liberalisation: ONE response - political mediation possible, no convergence of social policies due to tradition, local issues & politics
 3. Change in ethical underpinning and social justice: change citizenship and rights, to individualism, incentives, not benefit adequacy, income redistribution
 4. Change social security to emphasis on paid work, activation and responsibilities rather than rights. Self reliance, not ‘belong to and participate in’

Movements in Inequality 1984-2009

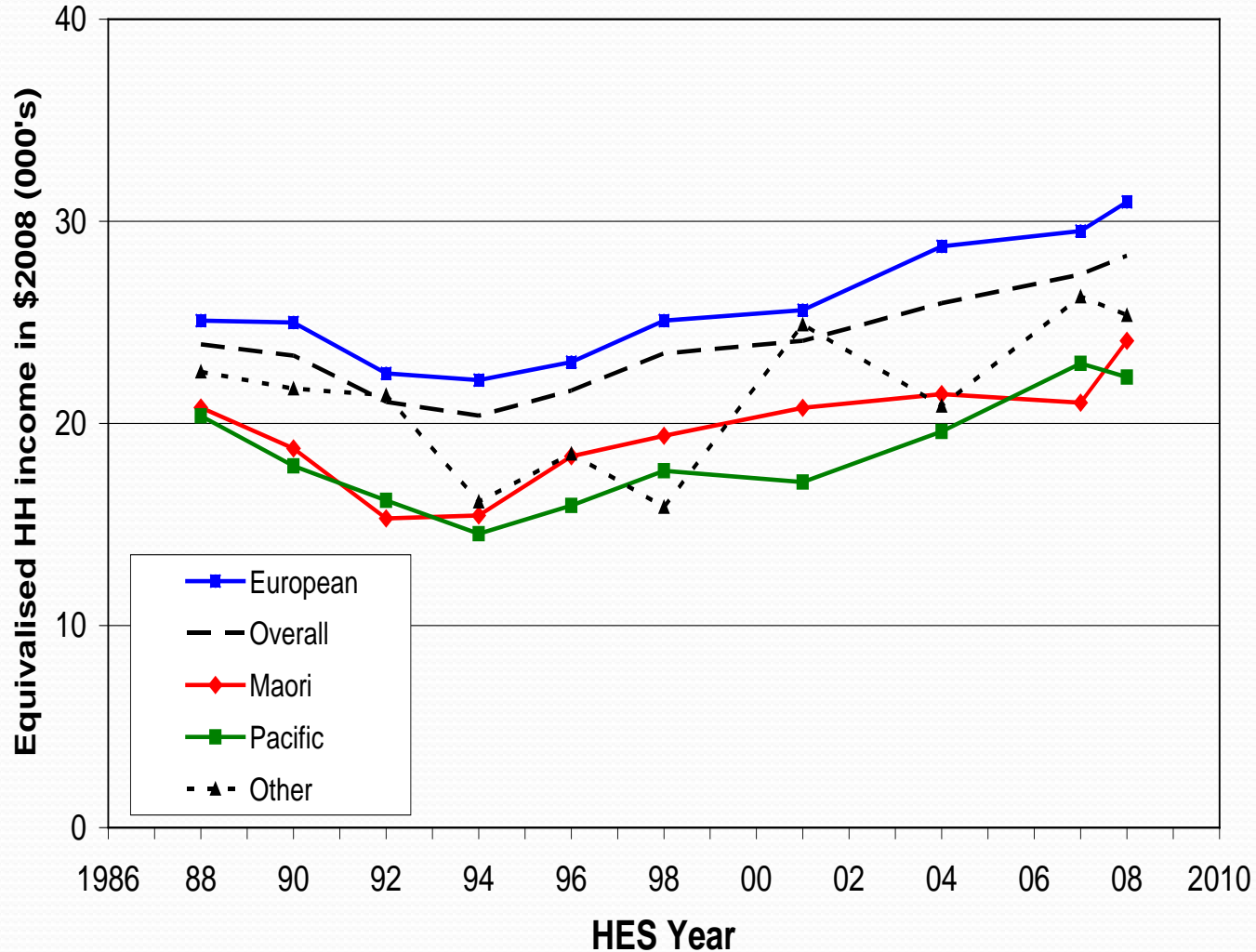
- Variety of ways of showing trends in inequality
 1. By deciles, using equivalent household disposable income. Increasing real income of 10th decile, falling until 1994 for lower 2 deciles, median and mean, and then rise for all deciles except 1st and 2nd.
 2. By ethnic group. European median income significantly above Maori and Pacific. All show downward trend to 1994 and then rise.
 3. Gini and Percentile P80/P20. Both rise to 2000, Gini faster than percentile, Post 2000, Gini stable and percentile fall.

Normal perspective on inequality trends

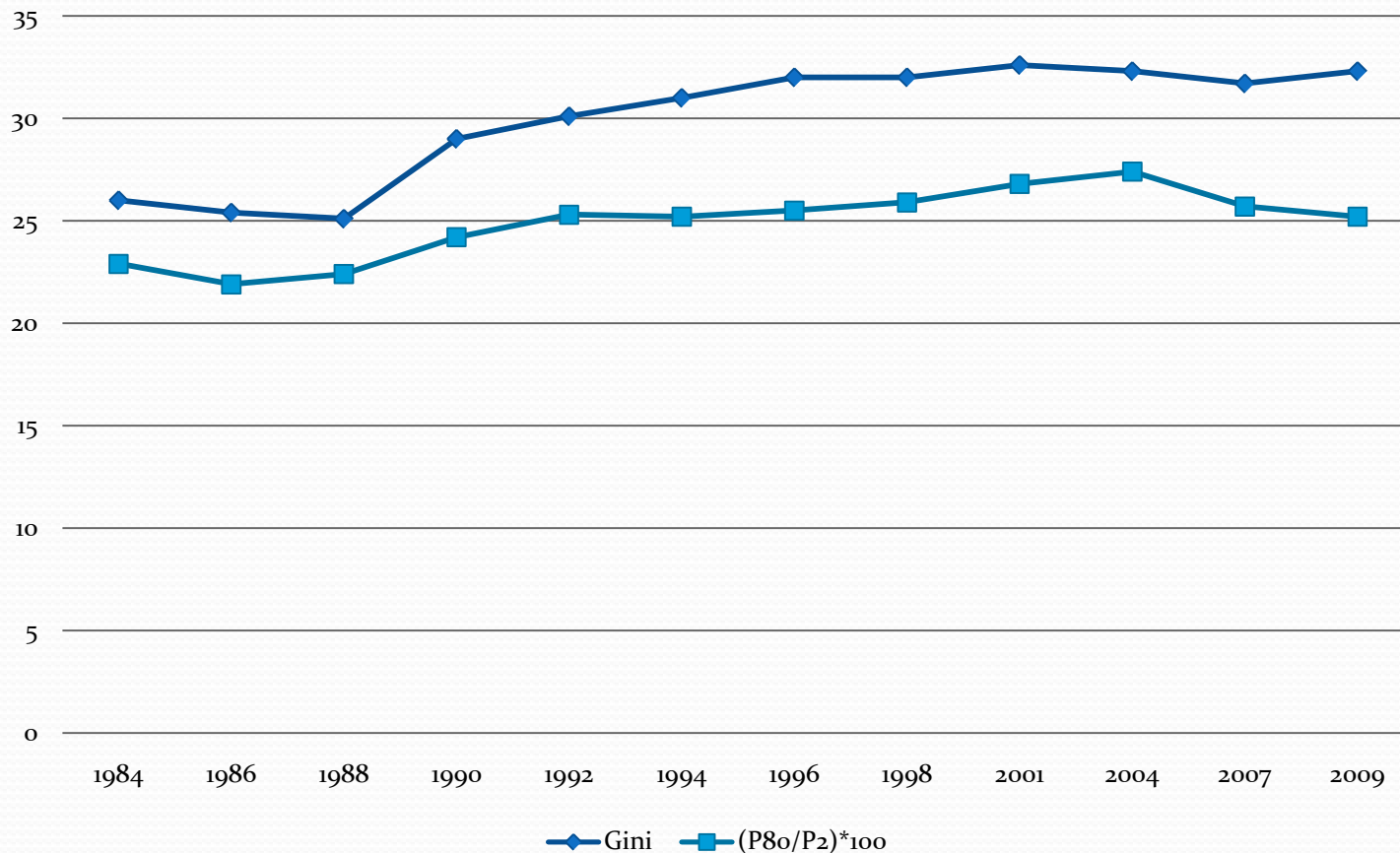
Trends in Equivalent Disposable Income , 1996 Prices



Real equivalent median household incomes (BHC) by ethnicity, 1988 to 2008 (\$2008)



Movements in Household Income Inequality, Gini & Percentile Analysis



Factors affecting household disposable income inequality

1. Tax cuts at top income scale
1986 [66% -> 48%], 1988 [48% -> 33%], 2000 39%, but tax avoidance, 2010 33%, extend thresholds.
But base broadening: nominal & actual effects, GST
2. Dual labour market, hollowing out of the middle
3. Number of earners in household, rise proportion dual income households
4. Benefit cuts 1991, by 5% IB, 15%+ UB
5. Employment trends, increasing numbers on benefits, fall 2000-08, reduction inequality, but post 2008 rise unemployment
6. Increasing wage inequality
7. Adjustment benefits by CPI, not average earnings
8. Working for Families post 2005 reduces inequality.

Cures or policy options:

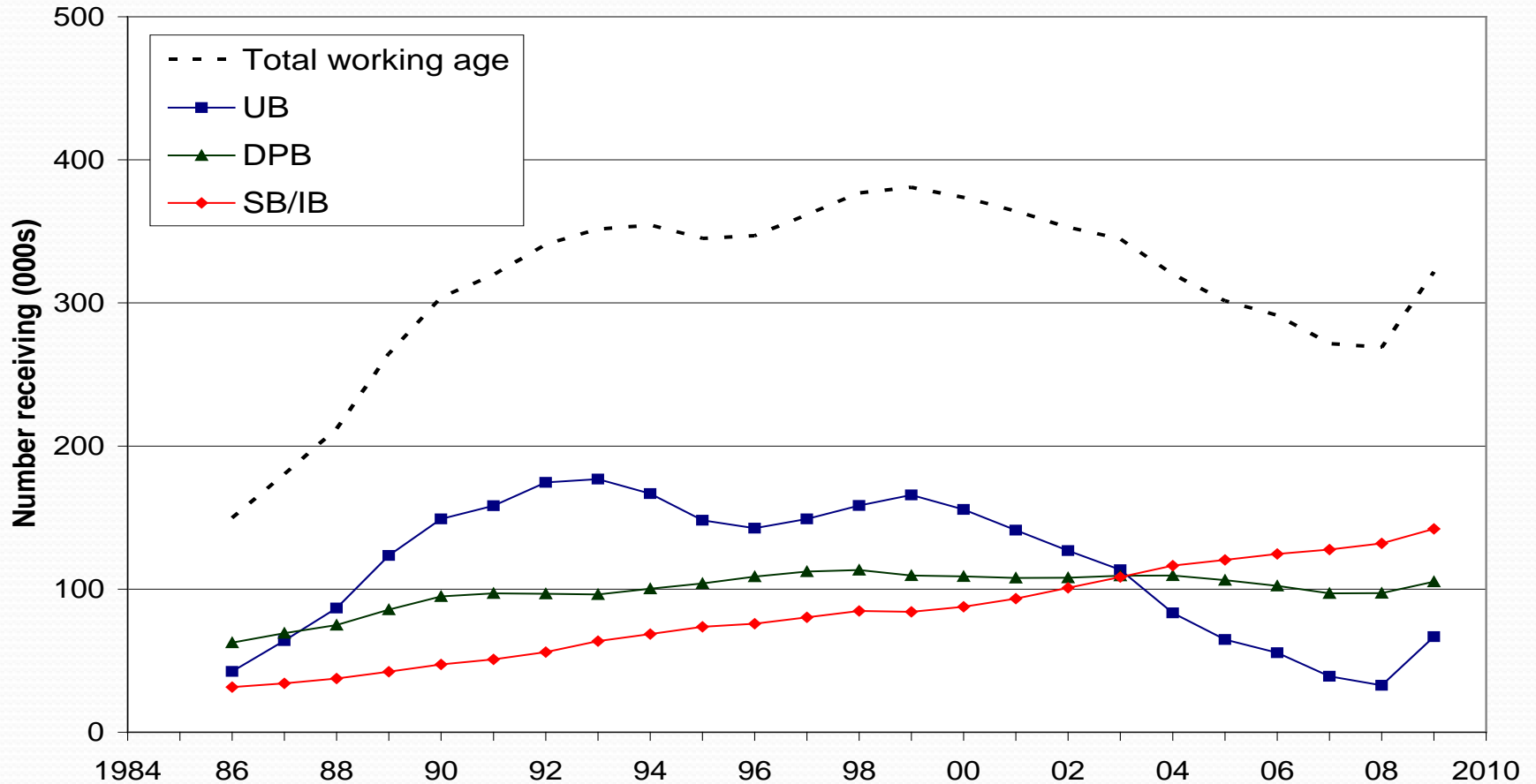
1. Full employment

- Offset increasing numbers on benefits to 2000. Employment major impact on inequality. Rise 2 income households

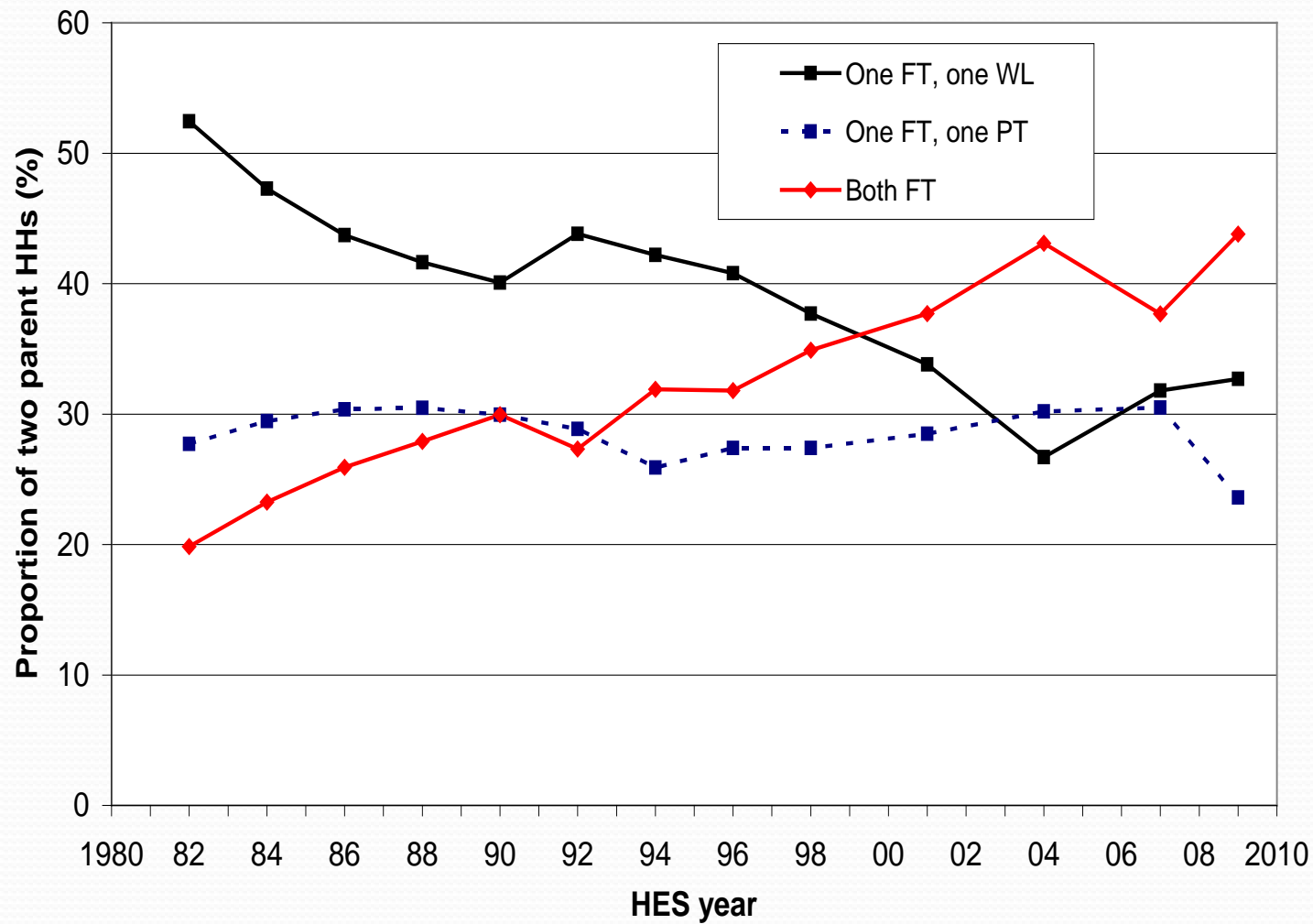
Increase labour demand

- Slow economic growth 1984-91 Gini co-efficient rise 20%, sustained growth 1998-2008 Gini fell 4%
- Economic theory debates: Keynes or Monetarist as to effectiveness
- Role of global economy
- Free-trade agreements
- 2000-08, 2/3rd reduction Gini employment effect, 1/3rd wage gains, return to education
- 90 day trial period: but 2004: 276,000 new jobs, 264,000 job losses. Inflexibility of labour market

Numbers in receipt of working age income-tested benefits, 1986 to 2009 (30 Jun)



Proportion of Two Parent Households by hours of paid employment (where at least one is FT)



2. Welfare to Work Schemes

- Enabling (Scandinavia) or enforcement (UK)

Enabling:

- Job search assistance, education, training, subsidies for employers, public job creation, in-work benefits, assistance with job-related costs
- Overcome barriers to work [Slide]
- Real jobs at adequate wages

Enforcement:

- Tighten benefit rules, cut benefits (macro-economic impact), costly and difficult claimant process, community wage, work-for-dole,
- Only work if new jobs created, otherwise job displacement or found jobs anyway.
- Few schemes show 'additionality'

Barrier classifications

<i>Ethnicity</i>	<i>Limited mobility</i>	<i>Perceived age discrimination</i>	<i>Lack of qualifications</i>	<i>Lack of appropriate skills or work experience</i>	<i>Lack of available or appropriate jobs in the local area</i>	<i>Health, disability, physical incapacity</i>	<i>Poor English language skills</i>
NZ European	9	14	12	9	9	10	0
Māori	20	9	9	7	8	7	0
Pacific Islands	10	13	14	9	5	5	10
Other ethnicity	6	6	10	10	4	5	20
Total	13	12	11	8	8	8	2

3. Reverse tax cuts

Tax cuts 1986 & 1988 larger for high incomes than low incomes, reducing difference in tax payments rich and poor

- With family assistance, same trend to 2004, but WfF give tax credits at low income levels
- 2010 tax cuts only to higher incomes

Politically hard to do

- Tax avoidance if only at reversed at top,
- If at lower/middle incomes, effect spreads onto higher incomes but still reduces inequality.

2010 tax cuts to higher earners. Closure of tax loopholes [trusts, rental housing]

- Fiscal drag (non-indexation thresholds) has gradual impact
- Tax rebate to lower earners, but high EMTR -> adverse incentive effects

Macro-economic impacts - ? Growth effects, especially at top end of income scale

Personal Income Tax – Single

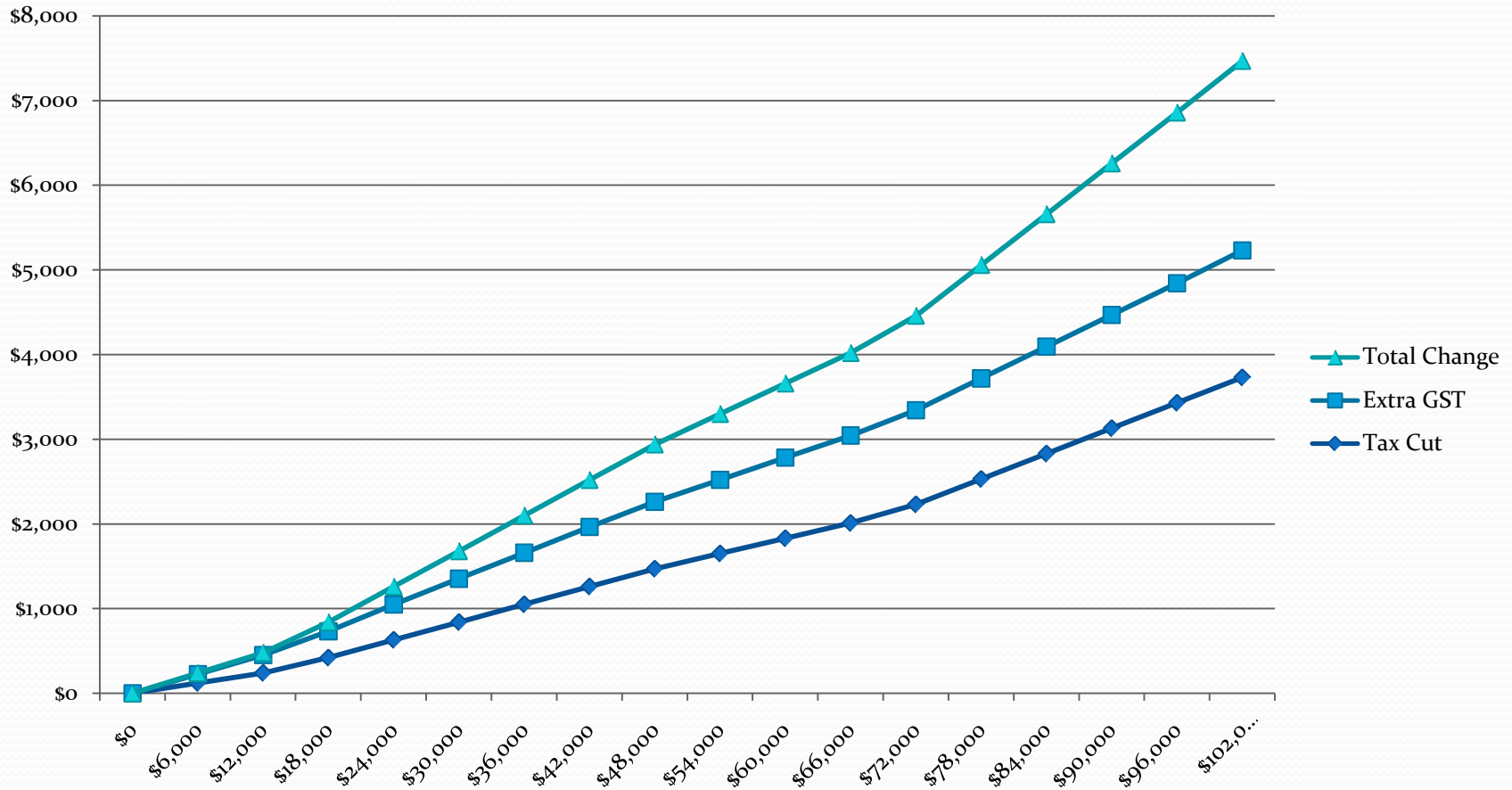
Person

% av. earn	1982	1986	1988	1996	1998	2000	2004	2006	2008	2009
75	22.5	21.4	21.4	20.5	18.8	18.9	19.2	19.3	17.7	16.0
100	26.7	23.5	23.0	21.4	19.4	19.4	20.6	21.6	20.3	18.4
150	28.1	27.4	25.5	24.9	23.2	23.7	24.9	26.0	25.0	22.9
200	32.0	32.6	27.5	26.9	25.7	27.1	28.5	29.3	28.3	26.6
250	36.9	35.6	28.6	28.1	27.1	29.5	30.6	31.2	30.4	28.8
300	41.7	37.7	29.3	29.0	28.1	31.1	32.0	32.5	31.8	30.4
Diff 300-100	15.0	14.2	6.3	7.6	8.7	11.7	11.4	10.9	11.5	12.0
Diff 200-100	5.3	9.1	4.5	5.5	6.3	7.7	7.9	7.7	8.0	8.2

Personal Income Tax – Couple with Two Dependents**

%av. earn	198 2	198 6	198 8	199 6	199 8	200 0	200 4	2006 *	200 8	200 9
75	9.6	4.1	4.5	3.2	1.5	3.4	8.9	-8.2	- 12.6	- 13.6
100	18.7	15.1	14.9	11.6	13.6	15.3	20.4	3.0	2.2	-0.1
150	25.4	25.5	23.9	24.9	23.2	23.7	24.9	20.3	19.5	16.6
200	30.0	31.1	26.1	26.9	25.7	27.1	28.5	29.3	28.3	26.6
250	35.2	34.5	27.5	28.1	27.1	29.5	30.6	31.2	30.4	28.8
300	40.3	36.8	28.4	29.0	28.1	31.1	32.0	32.5	31.8	30.4
Diff 3-1	21.6	21.7	13.5	17.4	14.5	15.8	11.6	29.5	29.6	30.5
Diff 2-1	11.3	16.0	11.2	15.3	12.1	11.8	8.1	26.3	26.1	26.7

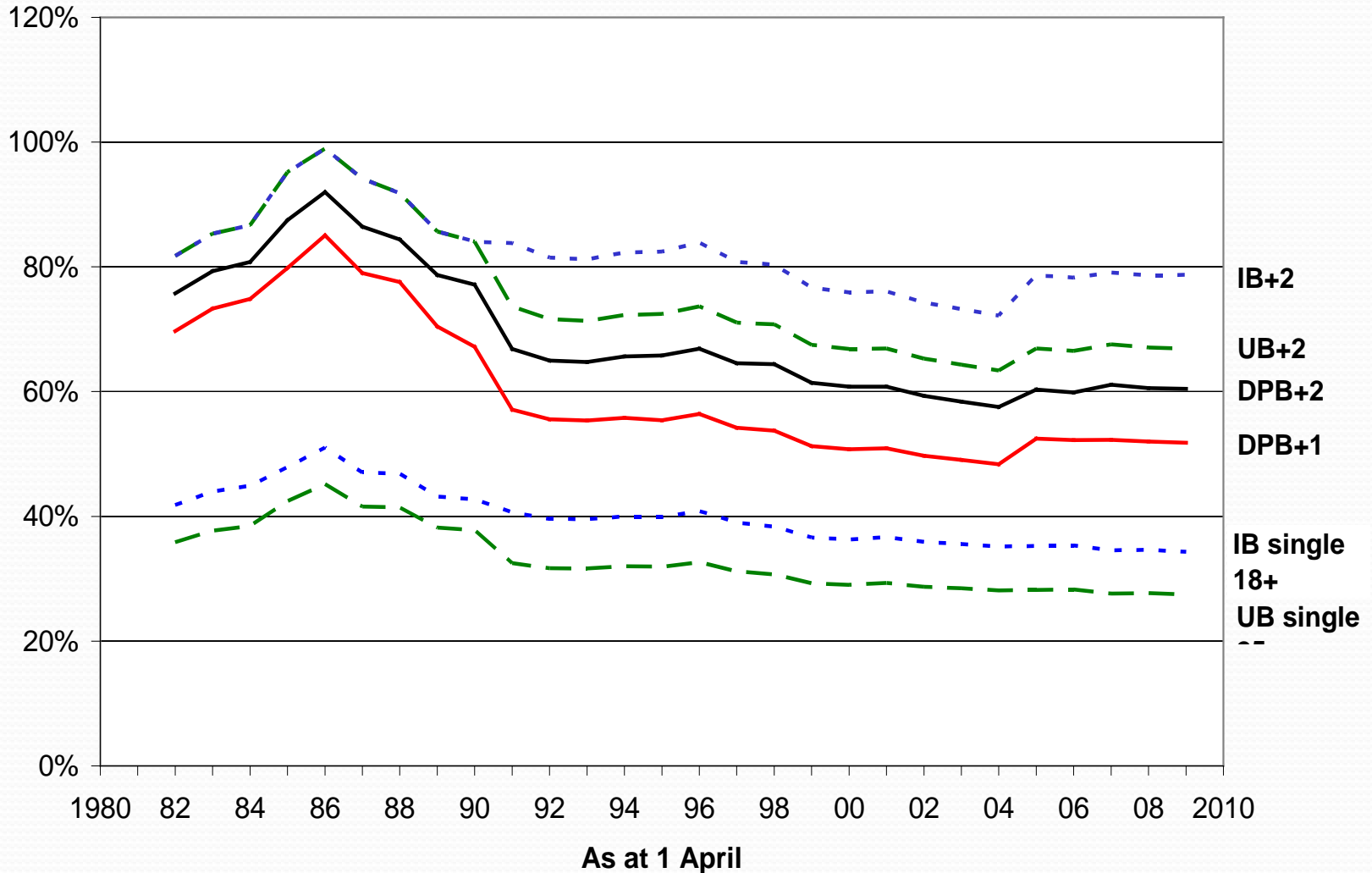
Annual Net Income Change (Income tax + GST) 2010 tax changes



4. Benefit Levels

- Reverse benefit cuts:
 - Fiscal costs, but improve aggregate demand
 - Adverse incentives, but require stricter entitlement rules
 - Adjust benefits by average earnings, not CPI
- Increase family assistance for beneficiaries and low income workers. But tighter targeting -> adverse incentives.
 - WfF: move NZ 3rd bottom OECD re level of financial assistance to mid ranking, though relatively high at benefits, lower incomes
 - NZ more tightly targeted cf OECD countries, even after WfF
- Impact WfF: 13,600 sole parents entered work 2004-07, two-thirds due to WfF (Dalgety),
 - 20 hour+ work rose 36% 2004 to 48% 2007, 75% due to WfF
 - Changes largest for those with some labour market attachment, increased exit, reduced inflow, return (easiest fruit picked)

Income-tested benefits (plus FTC) relative to average earnings



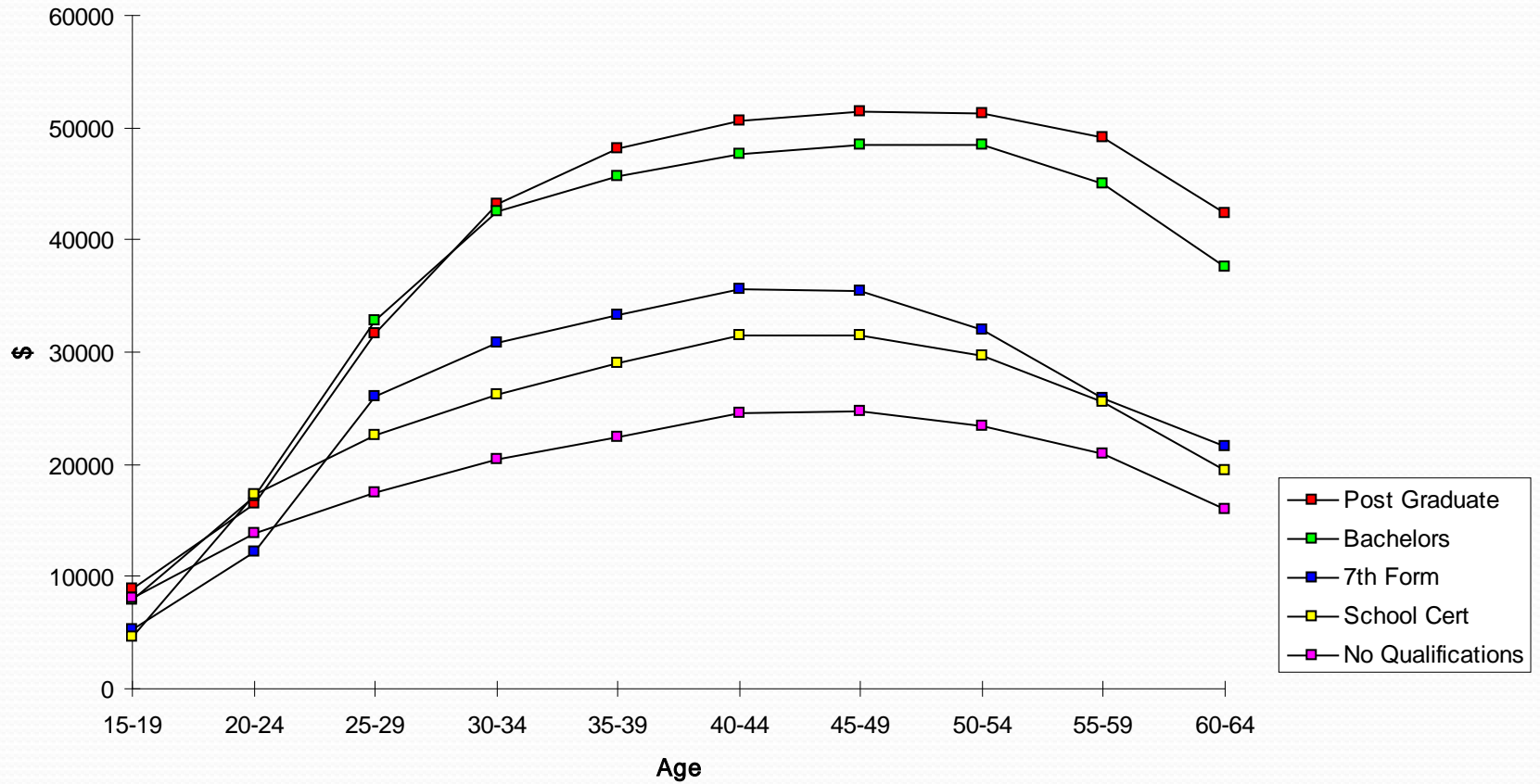
5. Wage levels

- Temper salary increases at top – but global market for skills,
 - Growth in high skilled jobs
 - Would CEOs here get jobs overseas?
- At bottom, increase minimum wage, labour market impacts small [increase costs, but efficiency wages - work 'harder', increase productivity] and greater macro-economic demand
 - Growth in low skilled service type jobs, and hollowing out of middle [manufacturing and clerical jobs]
- Improve skills, education for Maori and Pacific peoples
- But international trends differ: Germany and Norway have reducing differentials, but faced with same global trends, though higher unemployment

6. Longitudinal & Intergeneration Issues

- Increase in income from ageing (till 50-55), greater for higher income from promotion, return to skills.
- Returns to education greater for highly educated
- Transfer of economic and social status from one generation to next
- Limited intergenerational mobility of income: NZ 0.4, UK 0.6
- Transmission of poor outcomes from poverty (cash) or welfare dependency (in-work benefits and work schemes)
- Social origins/inheritance more important in less egalitarian societies
- Early cognitive development as a way of offsetting social inheritance -> early interventions, not remedial or compensatory interventions later in life cycle
- Impact on child outcomes such as educational attainment, teenage pregnancy, employment levels, health status
- Maternal employment and child outcomes: better income, less nurture [OECD – 0-1 parent home, 1-3 some ECE, 3+ ECE, but ? Length]
- Low quality, low pay may have a negative effects, esp. if odd hours

Average Total Income, by Age: Males, by Qualification



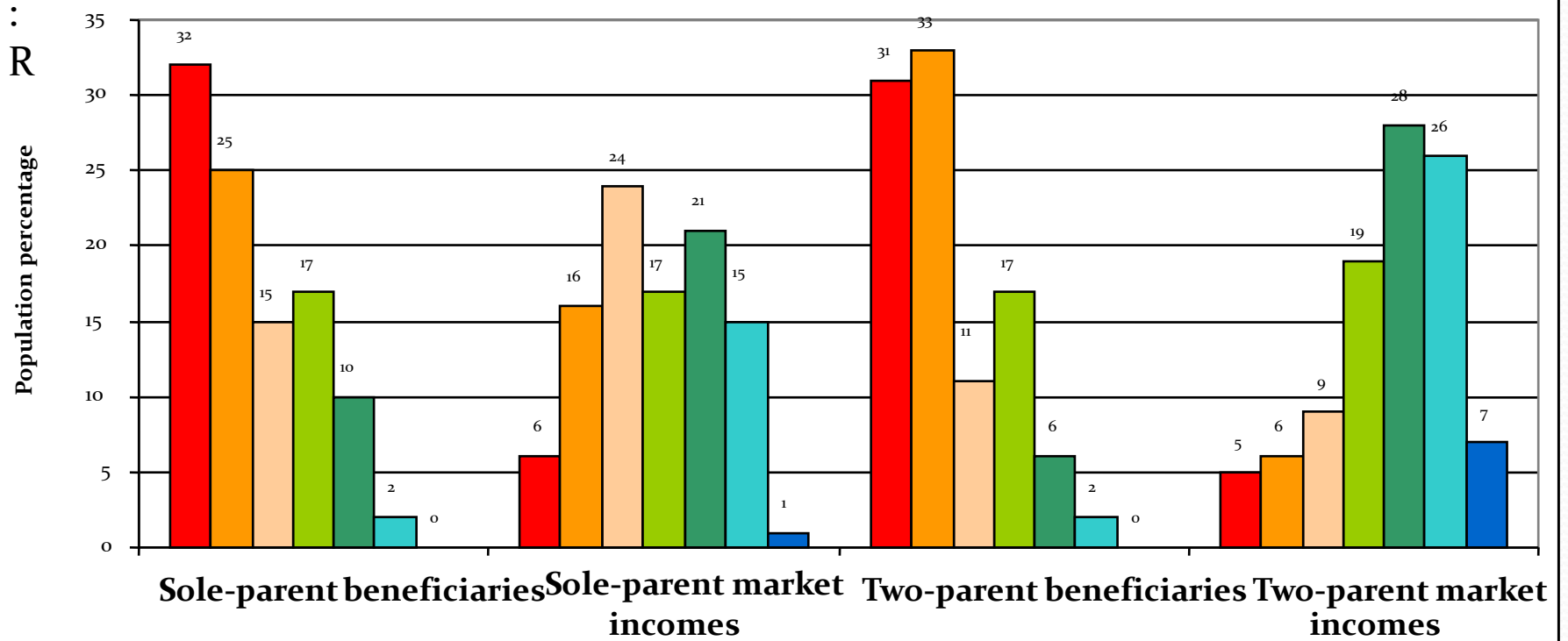
7. Policies from Outcome Measures

- ELSI (MSD) Items: necessities to luxuries: cover
- Ownership restrictions, social participation, economising, financial, accommodation
- Lack access to finance - loan sharks; economise food, clothes
- Inability to afford health, dental, overcrowded housing with poor insulation -> worse health
- Economic impediments: lack of assets, home, high housing costs, education, children
- Life shocks: few OK, but 8+!: break-up, sole parent, mortgagee sale, eviction, redundancy, violence, major illness, unplanned pregnancy

POLICIES: Benefits in-kind as well as income

- Deals with outcomes, not short-term cure
- Short term: housing quality and cost; doctors, medical costs; enable work (WfF); education; ? GST on food
- Long term: home ownership, ECE, life shocks

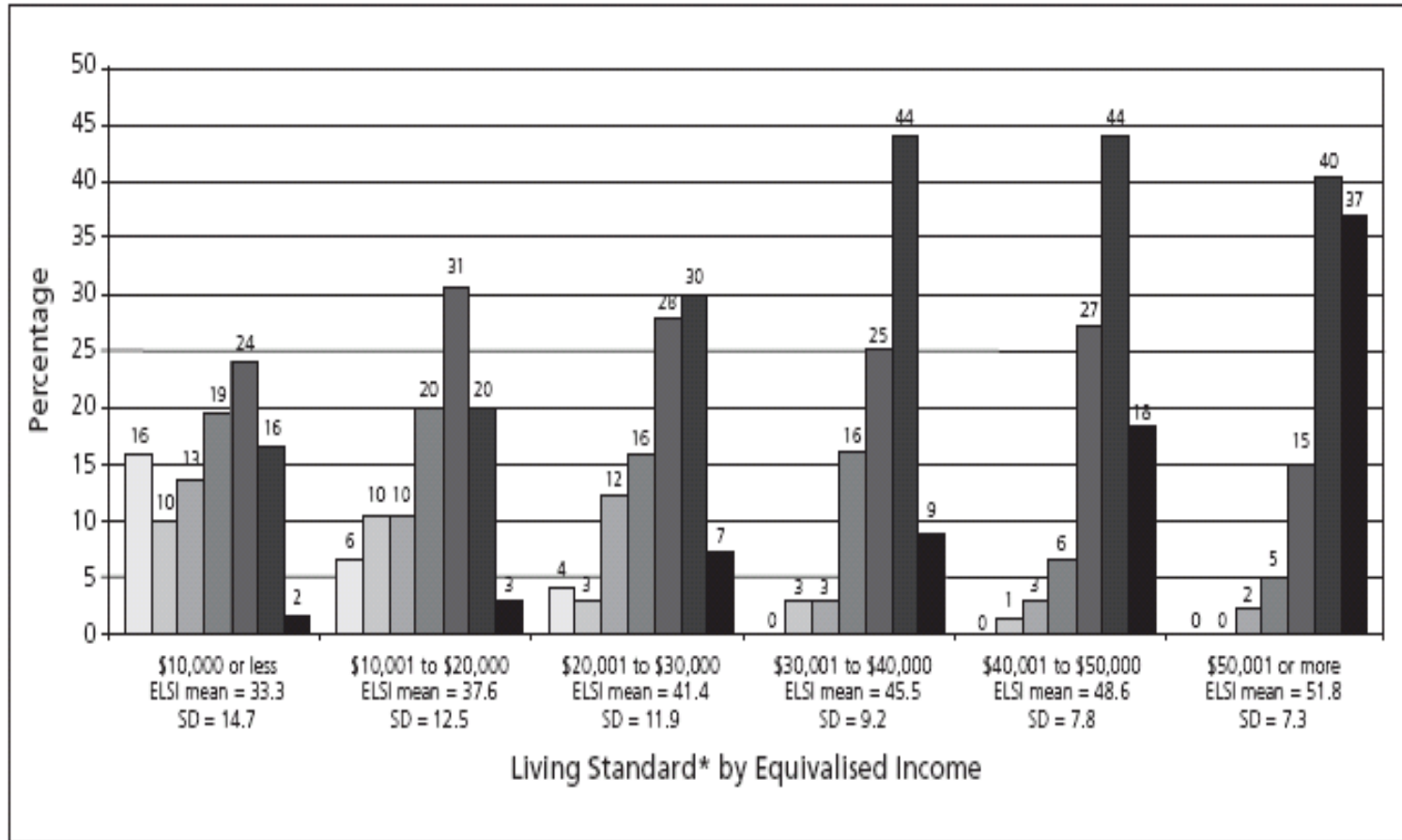
Economising	Total	2 Parents	1 Parent	65+	65+ Maori
Less/cheaper meats	23	28	52	36	62
Older clothes	10	11	30	12	30
Postponed doctor visit	8	9	18	8	21
No glasses	5	6	11	10	24
Not got prescription	2	3	7	2	10
Kids share bedroom	-	8	17	-	-
Financial Problems					
Borrowed money	14	13	27	1	7
Can't pay utilities	10	12	36	2	11
Relied on charity	5	6	21	0.5	6
Accommodation Problems					
Dampness	19	20	19	-	-
Plumbing	11	11	12	-	-
Roof	12	13	9	-	-



Family type and income source:

Red - poorest outcomes, many restrictions, dark blue - few restrictions

Figure 3 Living Standards, by Equivalised Income, 2004



* Living standard ranges from severe hardship (left-hand bar) to very good living standards (right-hand bar). See Figure 2 for a full explanation.