



Inequality and Poverty

Stephen Hickson

Department of Economics and Finance
University of Canterbury

(Note that the graphs in this presentation from MSD are the latest. The annual report from which this material is drawn has been in suspension for the last couple of years due to data concerns.)

Capuchins reject unequal pay



<https://www.youtube.com/watch?v=meiU6TxysCg>

The public discourse...

Widening inequality fuels discontent among Kiwis

15 June 2017

Seventy-three per cent agreed that inequality is "too high and/or growing fast"...

<https://www.stuff.co.nz/national/politics/93679813/grant-duncan-widening-inequality-fuels-high-level-of-discontent-among-kiwis>

The Rise of the Inequality Debate

...*economists* have been discussing the topic for a long time. But the *public* has been discussing the topic widely only recently.

...the percentage of NYT articles that uses the word "inequality" has increased more than ten-fold in the past few years. So has the percentage that uses the phrase "income inequality."

<http://gregmankiw.blogspot.co.nz/2015/02/the-rise-of-inequality-debate.html>

Peak inequality?

New Zealand Institute of Economic Research, 2017.

"...media coverage (as measured by New Zealand Herald articles mentioning inequality) has increased markedly since 2010."⁽¹⁾

https://nzier.org.nz/static/media/filer_public/c1/04/c1040885-5c29-493b-a394-d31d313bab7e/nzier_insight_70_peak_inequality.pdf

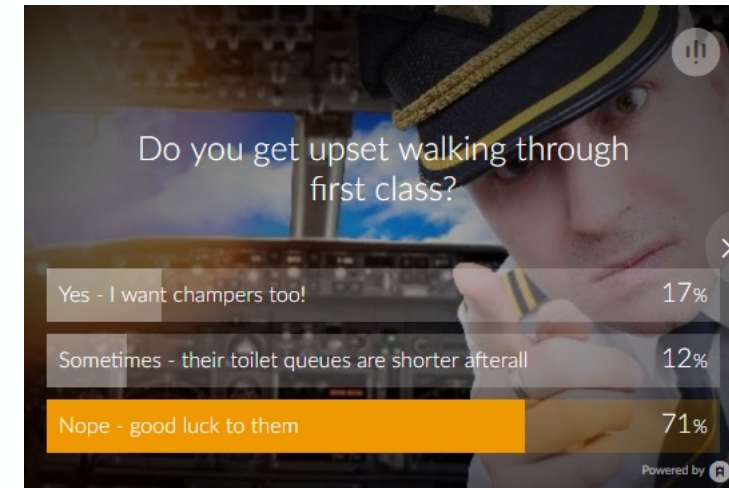
(1) From about 50 articles to 300.

First-class cabin fuels 'air rage' among passengers flying economy, study says

4 May 2016

Researchers report that the simple presence of a first-class cabin on an airplane is correlated with a nearly fourfold increase in the chance of an air rage incident in economy class.

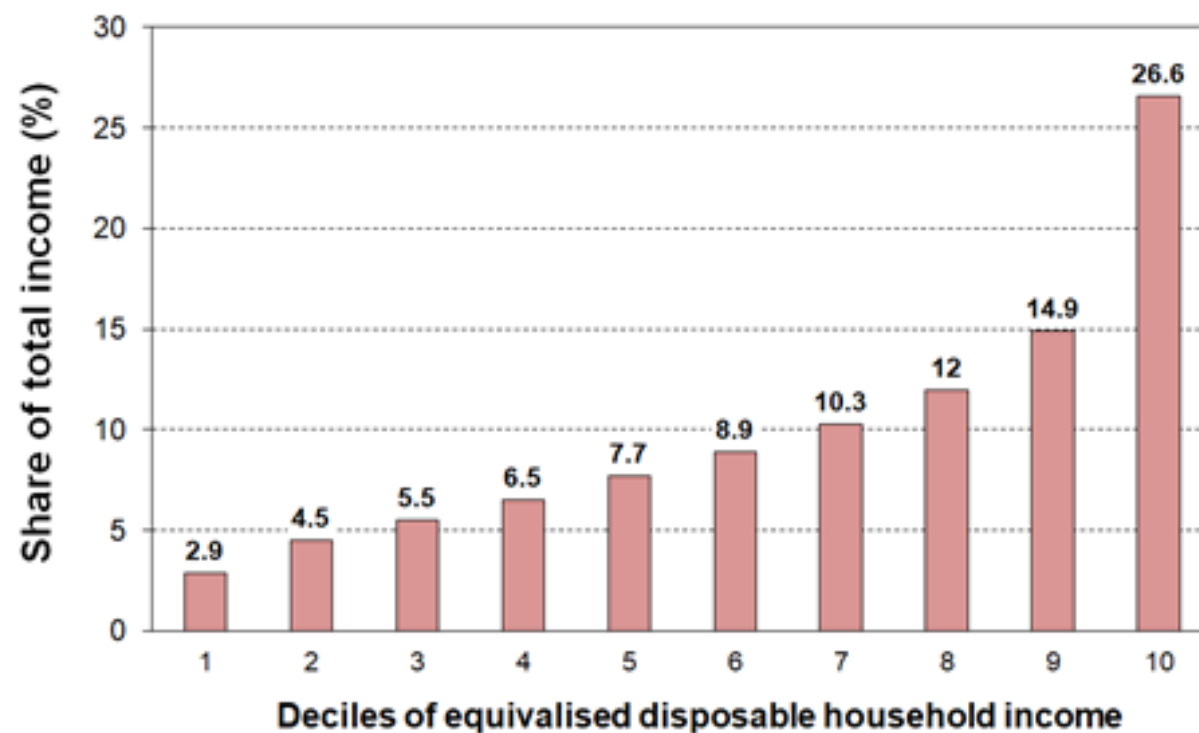
And when economy-class passengers are forced to pass through the luxurious first-class area... the rate of air rage incidents is more than seven times higher than if there were no first-class seats at all.



Distribution of Incomes

“Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018” Ministry of Social Development, October 2019. (Page 50)

Figure B.4
Shares of total income by deciles: HES 2018

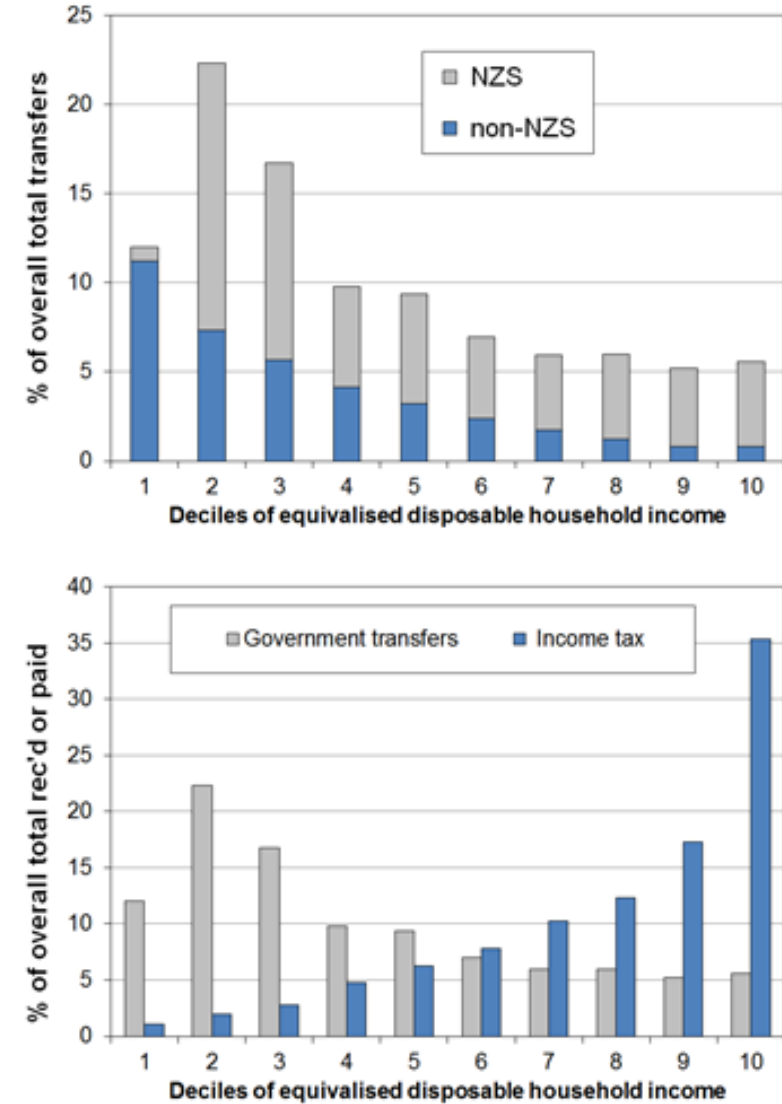


Taxes and Transfers by decile

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 55)

<http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

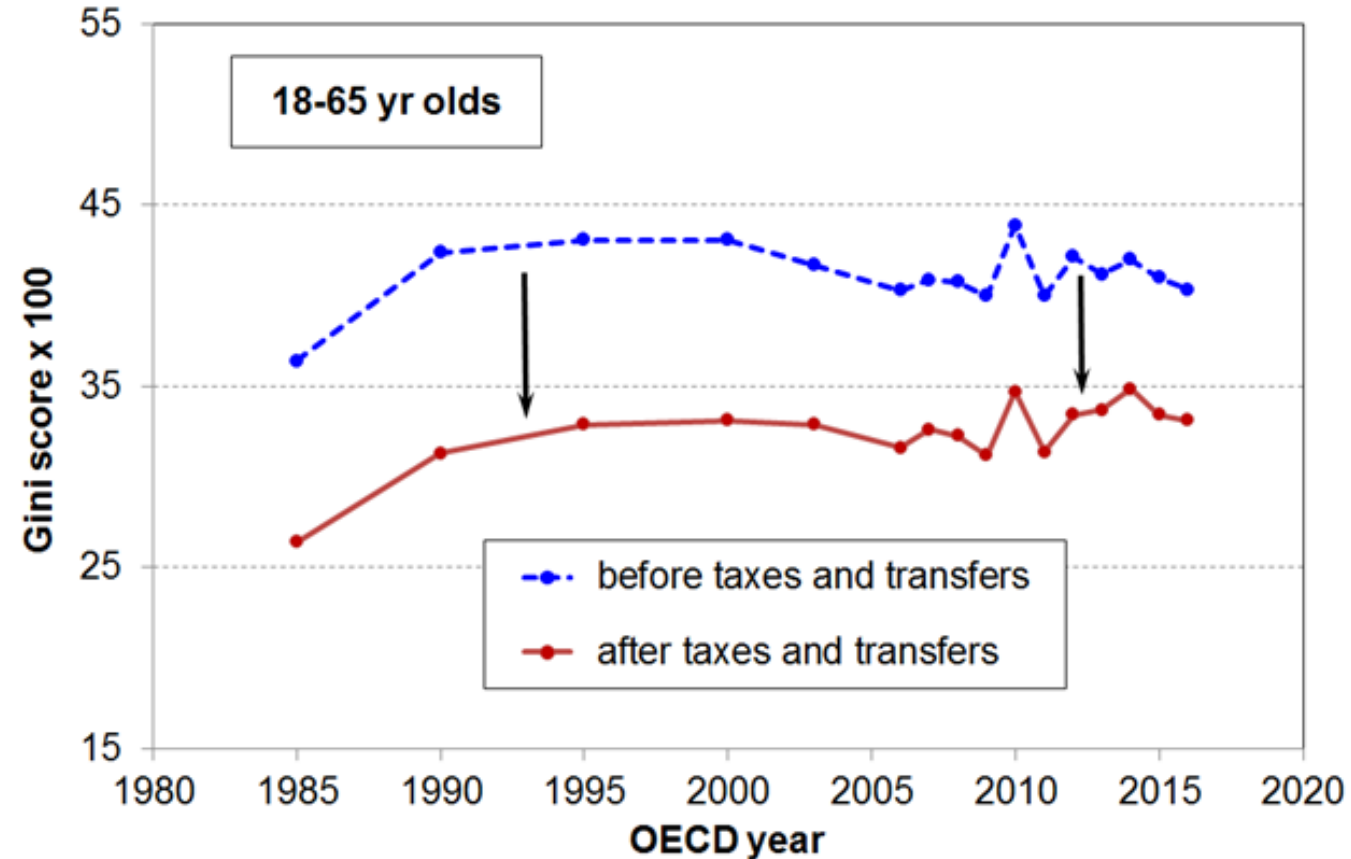
Figure B.5
Cash transfers and income tax paid: HES 2015



Market vs Disposable incomes

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 56)

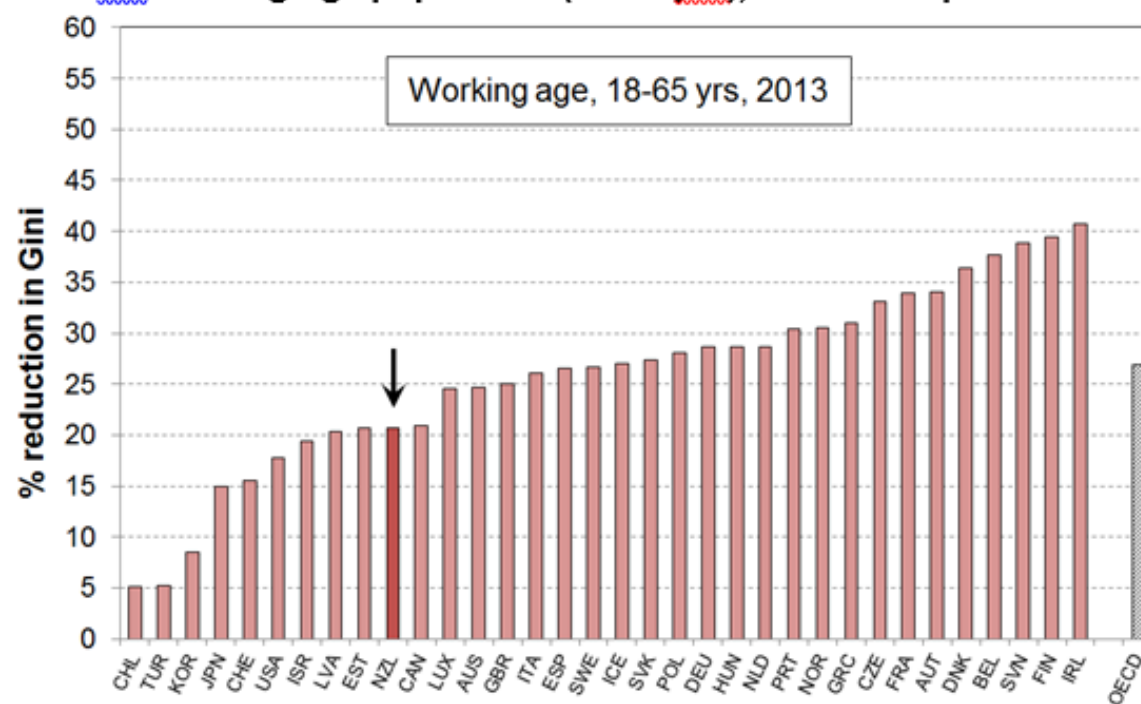
Figure B.7
Gini scores (x100) for market and disposable household income, 1985 to 2016 (18-65 yrs)



Percentage Reduction in inequality due to taxes and transfers

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 251)

Figure K.14
Reduction in market income inequality (Gini) from taxes and transfers
for working-age population (18-65 yrs), OECD comparisons



Source: Alvaredo and colleagues (2012), and MSD analysis of HES data.

Real Incomes over time

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 63 & 86)

Figure C.3

Gross and net average ordinary time weekly earnings (\$ Dec 2018)

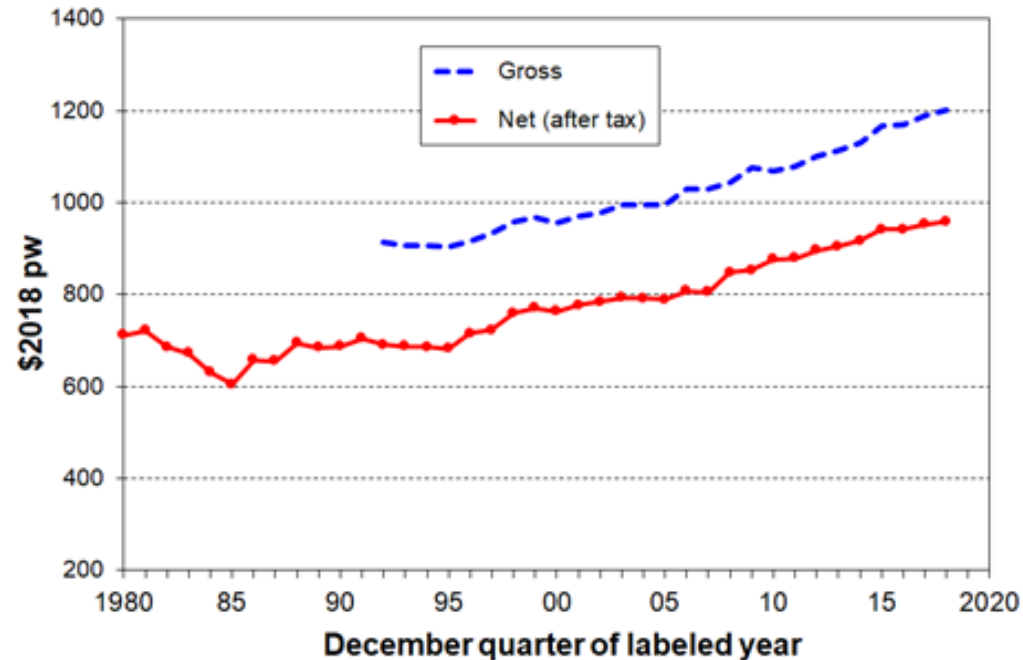
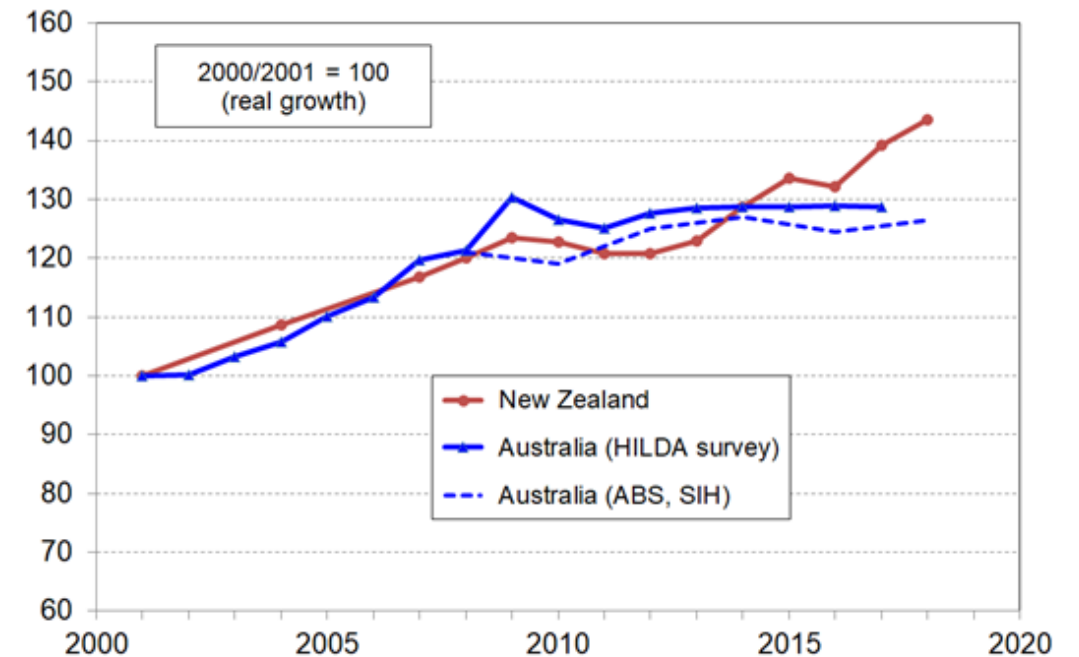


Figure D.7

Growth in median disposable household income (equivalised):
New Zealand and Australia compared, 2000 to c 2017-18



Source for Australia: Wilkins (2019), ABS (2019)

Change in incomes at top of deciles

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 83)

<http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

Figure D.6A
Real equivalised household incomes (BHC): changes for top of deciles, 1982 to 2018

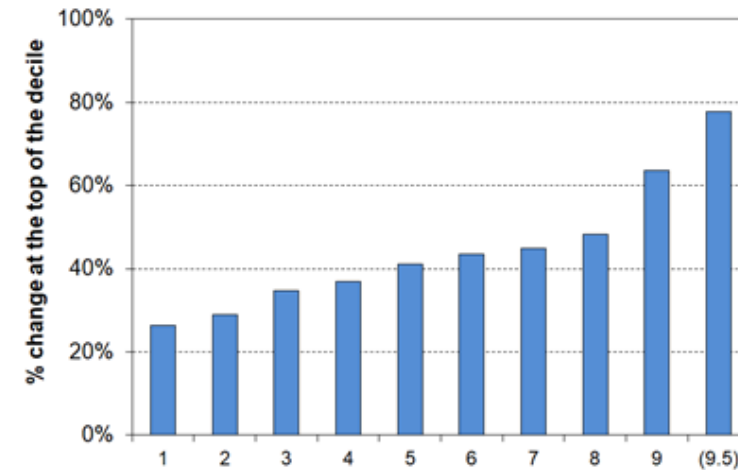
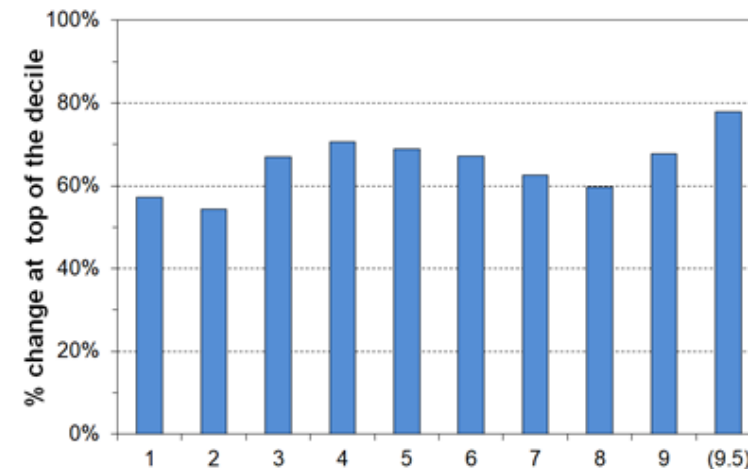


Figure D.6B
Real equivalised household incomes (BHC): changes for top of deciles, 1994 to 2018

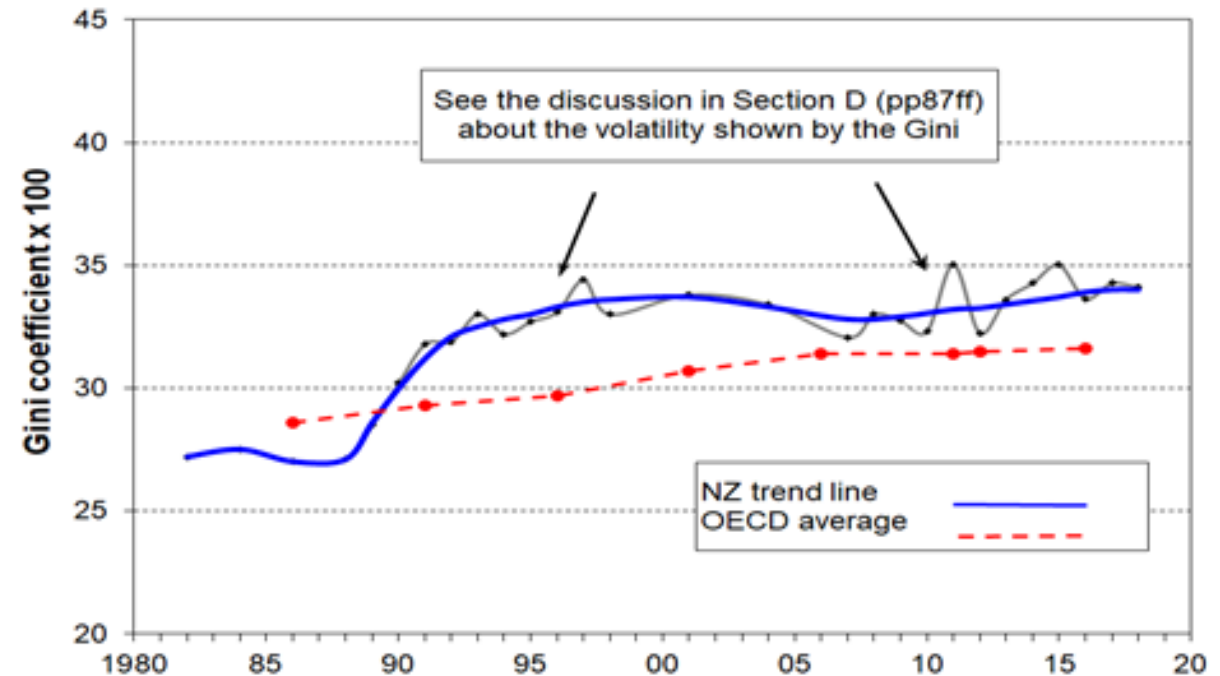


NZ Gini co-efficient over time

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 204)

But in New Zealand, most of this divergence occurred in the late 1980s and early 1990s.

Figure K.6
Inequality in New Zealand and the OECD trend: the Gini coefficient

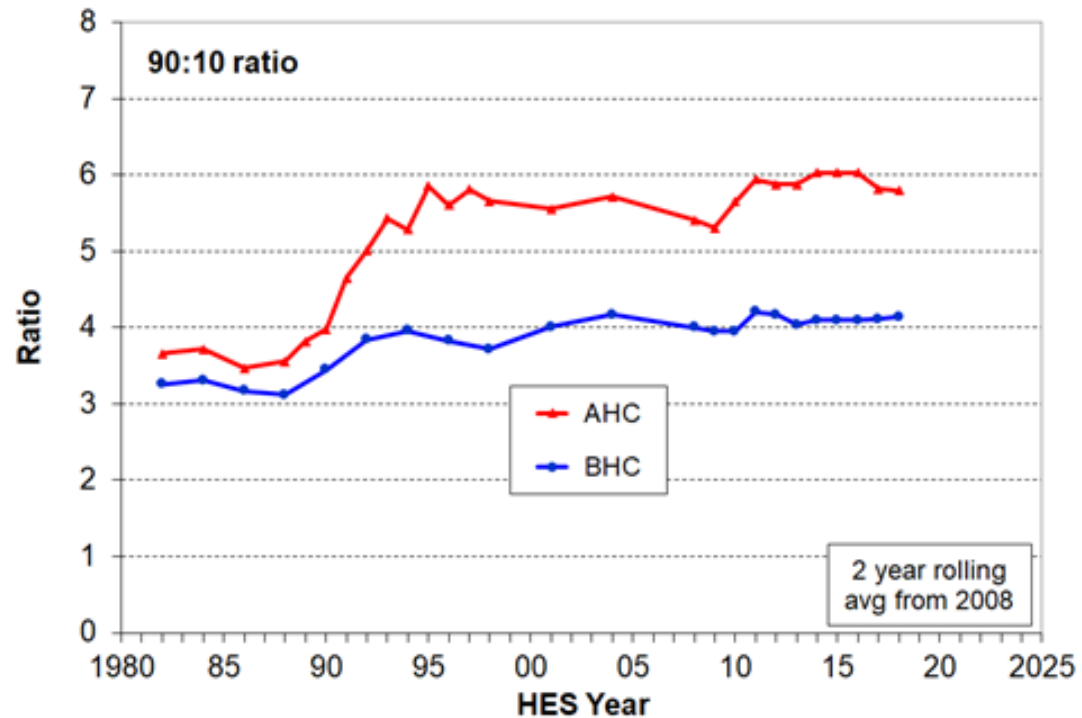


Note: The OECD label of 2014 refers to the 2014/15 survey year, and so on.

NZ inequality over time – the impact of housing

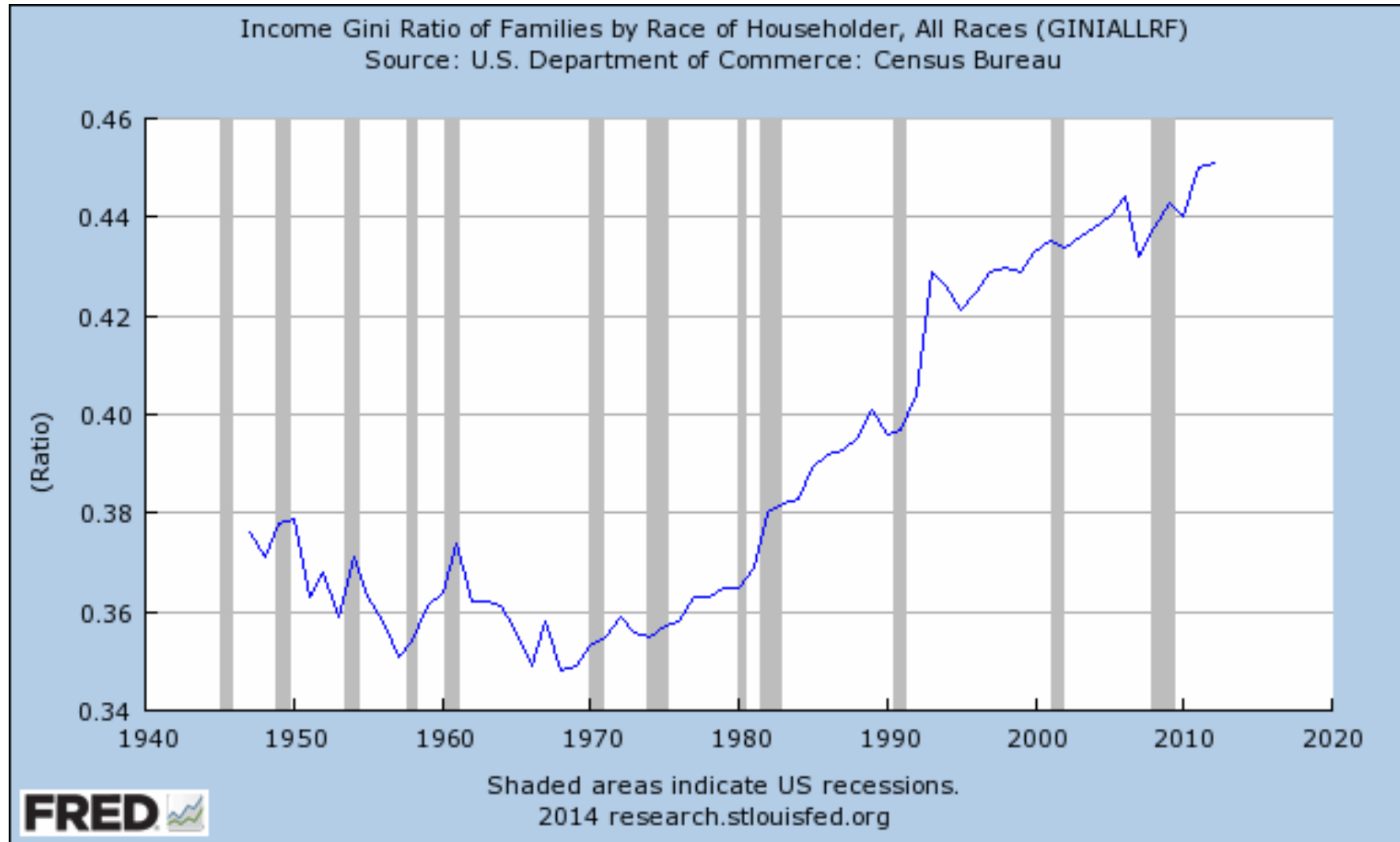
"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 204)

Figure D.13
Income inequality in New Zealand: the P90:P10 ratio, 1982 to 2018, total population



The P90:P10 ratio is the ratio of the top of the 9th decile (the 90th percentile) to the top of the 1st (the 10th percentile).

US Gini co-efficient over time

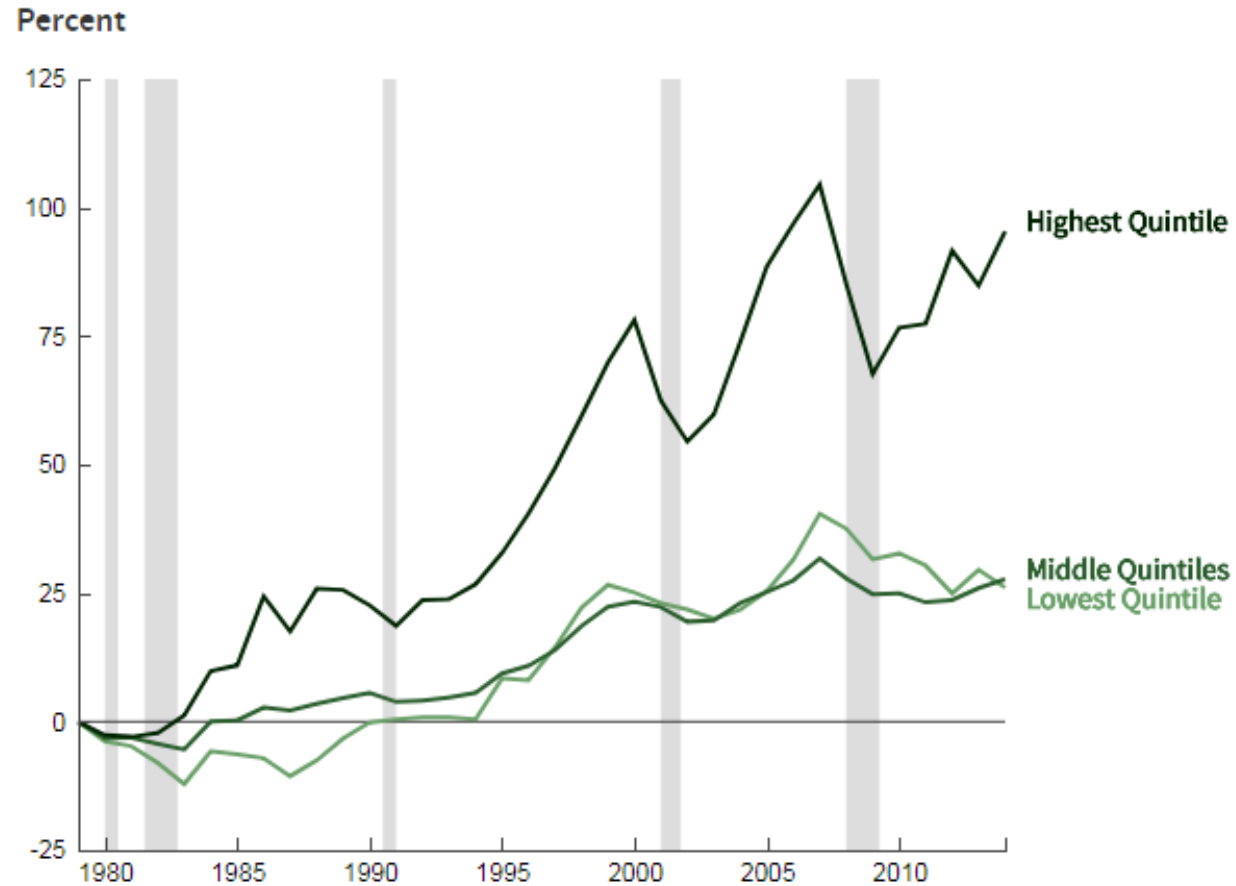


As reported in <http://www.cbsnews.com/news/dreaming-of-a-better-gini/>

Market Incomes - USA

"The Distribution of Household Income, 2014" US
Congressional Budget Office, March 2018.

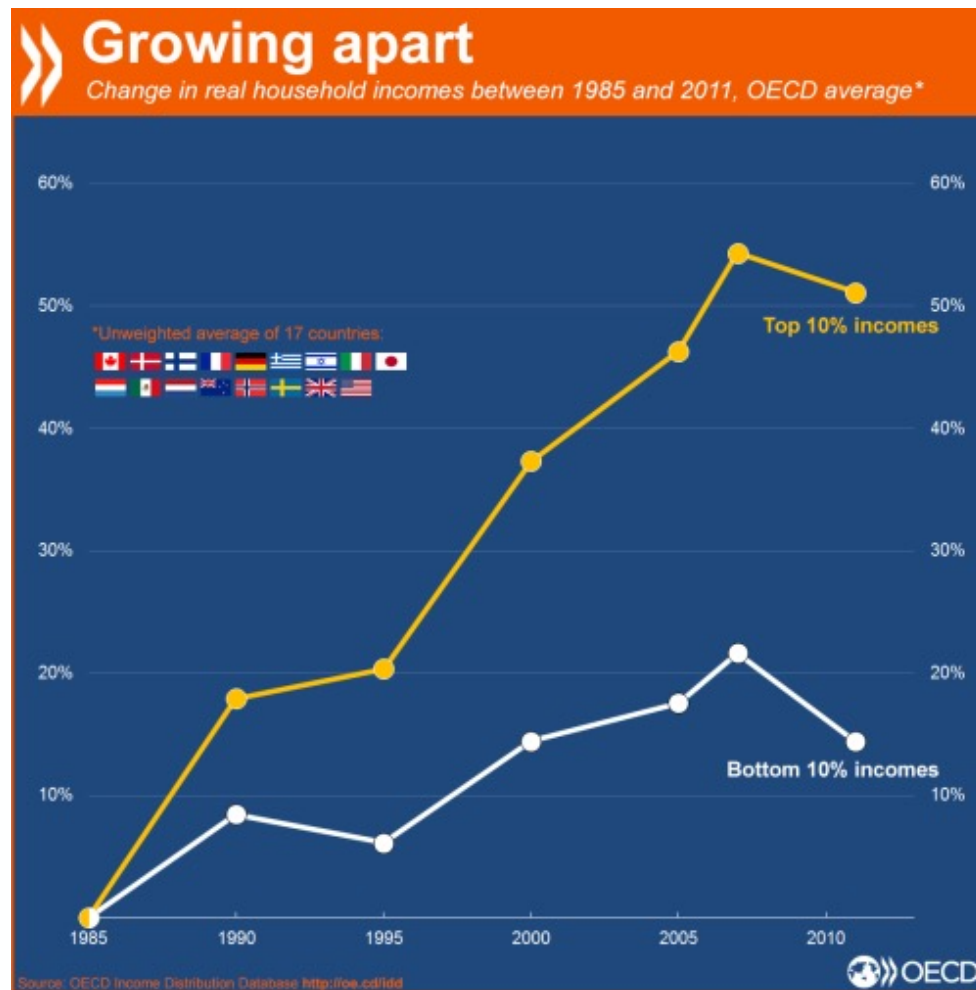
Summary Figure 2.
Cumulative Growth in Average Income, by Income Group, 1979 to 2014



<https://www.cbo.gov/publication/53597>

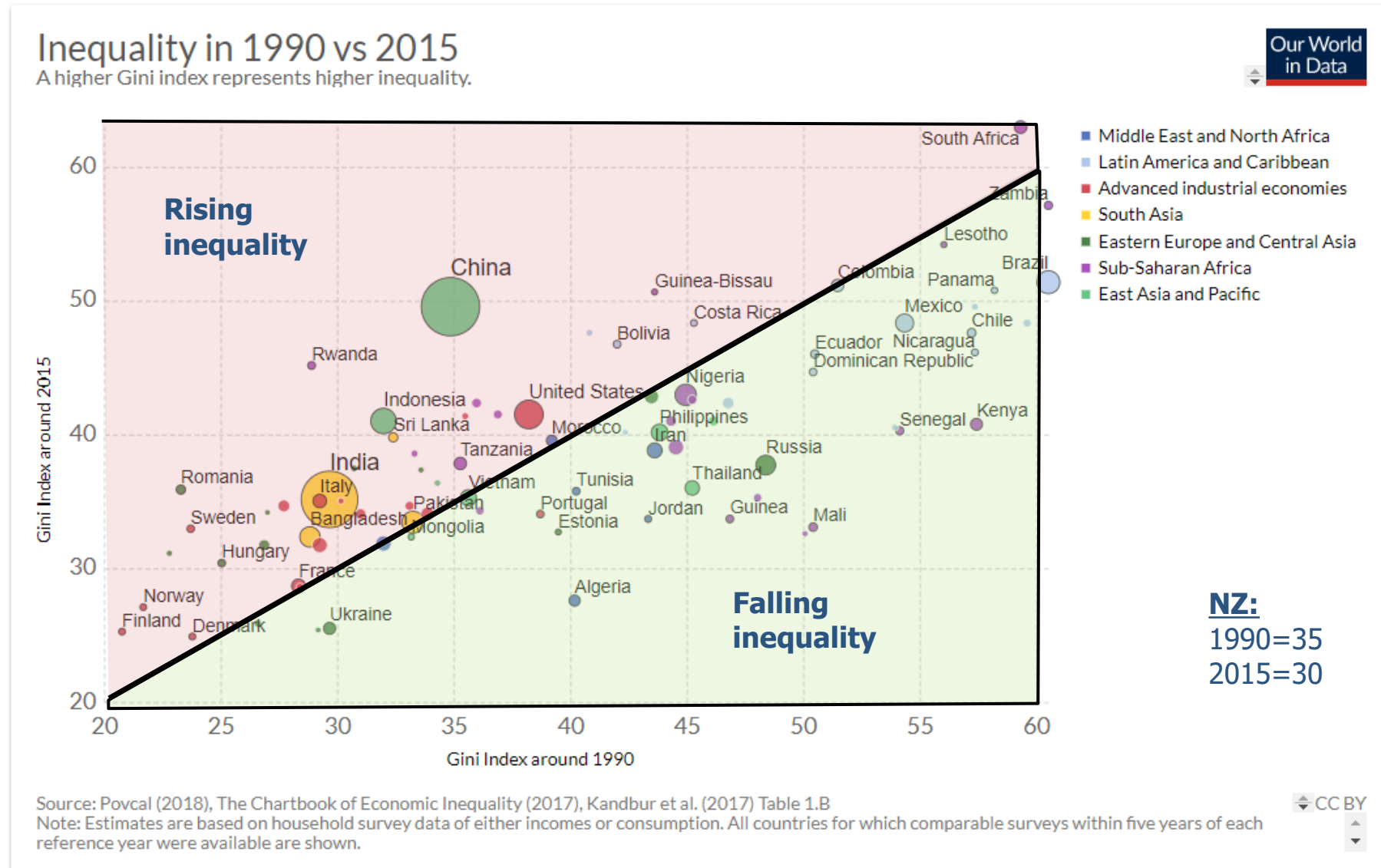
- Income **Before** Transfers and Taxes
- Income **After** Transfers and Taxes

Changes in real HH income – top 10% vs bottom 10%

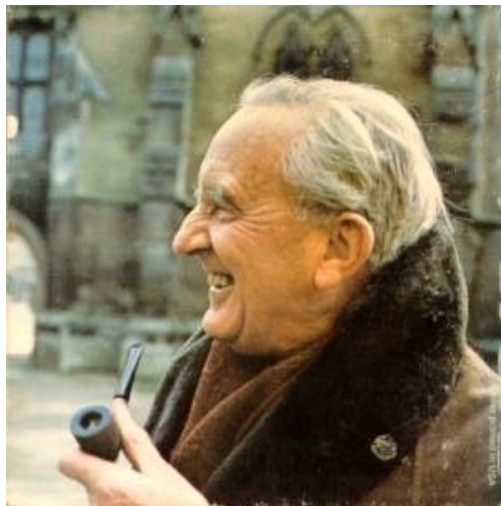
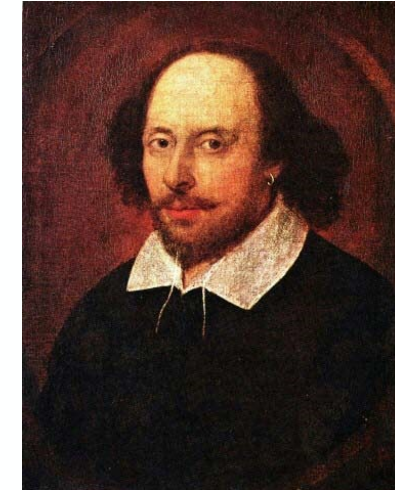
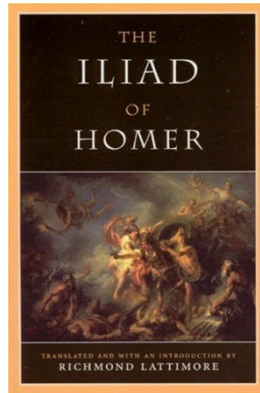
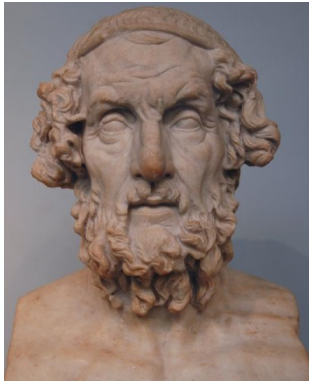


Conclusion: widening inequality arises not from the "*rich getting richer and the poor getting poorer*" but from **both** the top and bottom rising but the top rising faster than the bottom.

Gini Coefficients – 1990 vs 2015



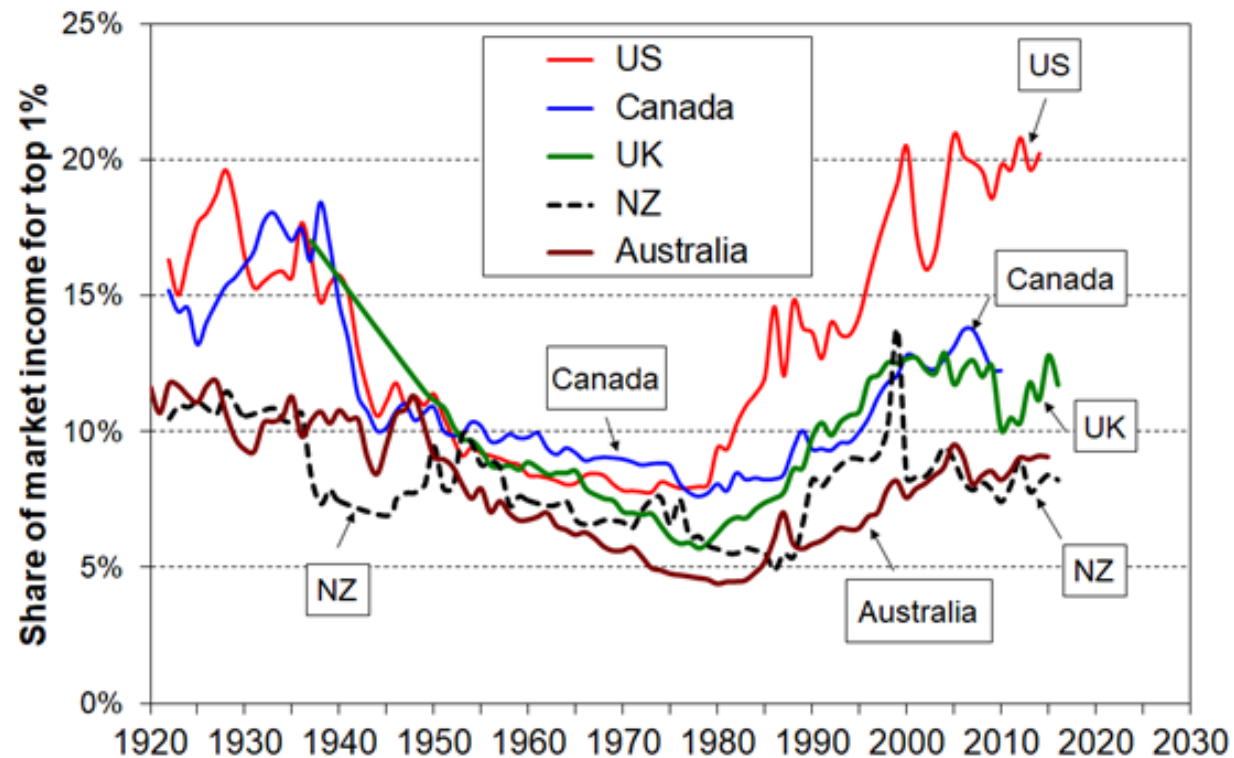
Higher inequality (since 1980) and the Harry Potter effect.



Income share by the top 1%

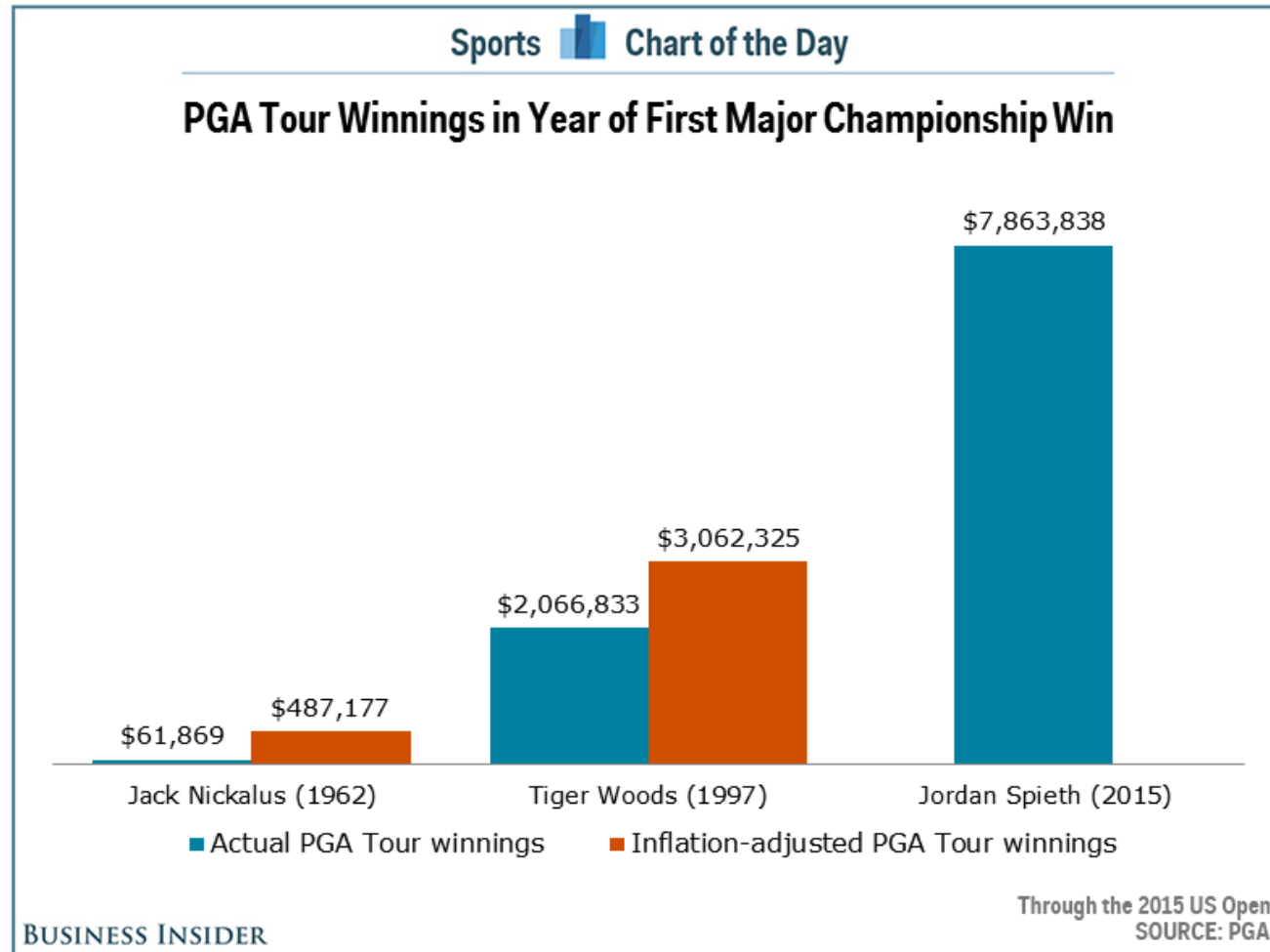
"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 247)

Figure K.8
Very high income: share of income received by top 1%, 1920 to c 2016



Source: World Inequality Database (Paris) accessed on 12 Sep 2019

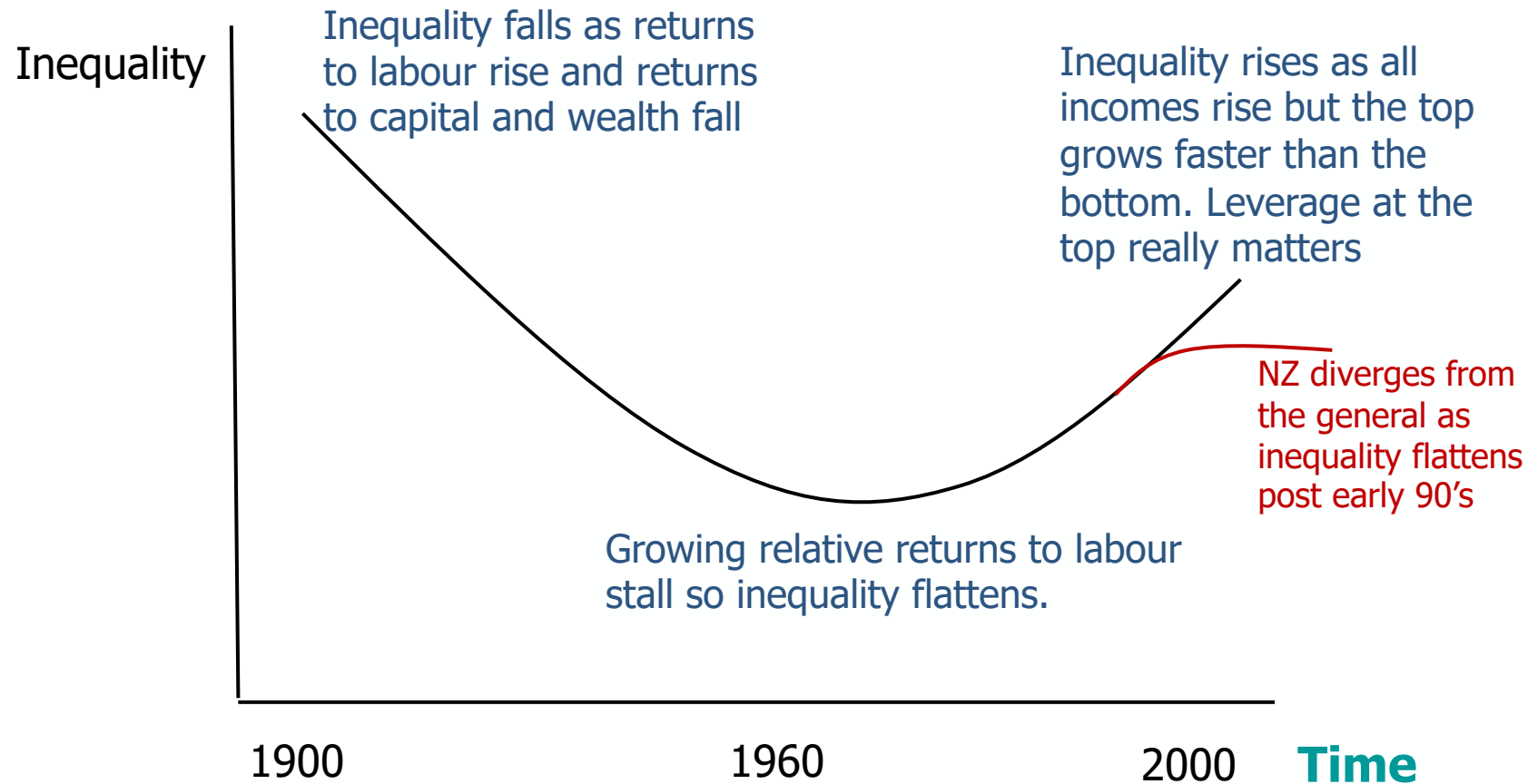
And in sports...



And endorsements increase this gap even more...

<http://www.businessinsider.com.au/jordan-spieth-pga-tour-winnings-2015-6>

Stylised time path for inequality (general developed economy pattern)



Why and How We Care About Inequality

Even more striking is the share earned by the top 0.01 percent—an elite group that, in 2010, had a membership requirement of annual income exceeding \$5.9 million. **This group's share of total income rose from 0.5 percent in 1973 to 3.3 percent in 2010.** These numbers are not easily ignored.

Mankiw, N., G. (2013) Defending the One Percent. *Journal of Economic Perspectives—Volume 27, Number 3—Summer 2013—Pages 21–34.*

Peak inequality?

“There is a widespread perception that inequality in New Zealand is increasing... 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.”

New Zealand Institute of Economic Research, 2017.

Moral of the story: that inequality in NZ has been flat over the last 2 decades does not mean that people are wrong to be concerned about inequality. However, we should at least start with the facts.

And what level of inequality is the “right” level?

The inequality and poverty confusion

Reducing income inequality key to Maori educational success

23 June 2009

John Minto, CHCH Press

There is strong evidence the main reason Maori are under-represented at university is because most come from **low-income** communities and this factor has a much greater impact than race...

...the way forward in education is to redirect the frustration over race into determination to reduce **income inequality** across New Zealand.

“Inequality and income poverty are sometimes used as if they are interchangeable ideas. ...they are quite different notions and need to be kept distinct as far as possible.” MSD Report (Page 75)

<http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

Child Poverty Monitor shows 148,000 children are living in material hardship

Thomas Manch · 05:00, Dec 09 2019



<https://www.stuff.co.nz/national/politics/118036855/child-poverty-monitor-shows-148000-children-are-living-in-material-hardship>

Is wealth of \$1m, income of \$100,000 actually rich? ▶

Susan Edmunds · 05:00, Jul 01 2020



<https://www.stuff.co.nz/business/money/300046088/is-wealth-of-1m-income-of-100000-actually-rich>



<http://www.newshub.co.nz/home/money/2018/03/hard-working-kiwis-getting-less-of-the-national-income-pie-report.html> (link now broken)

"In 2014, 305,000 (29%) of dependent 0–17 year olds were living in income poverty..."

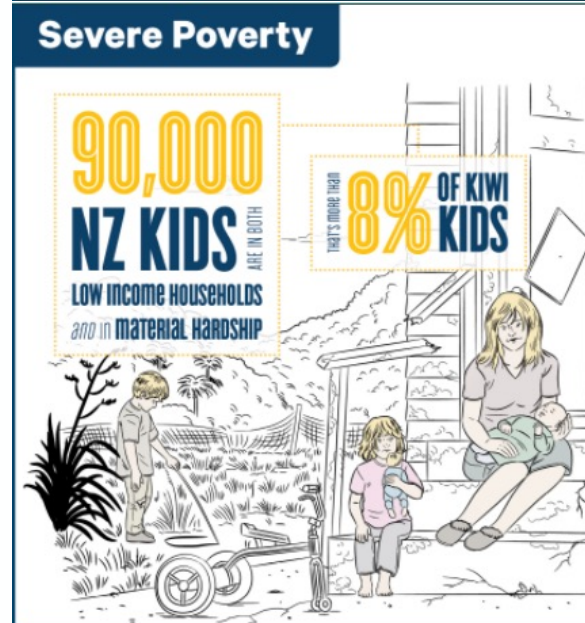
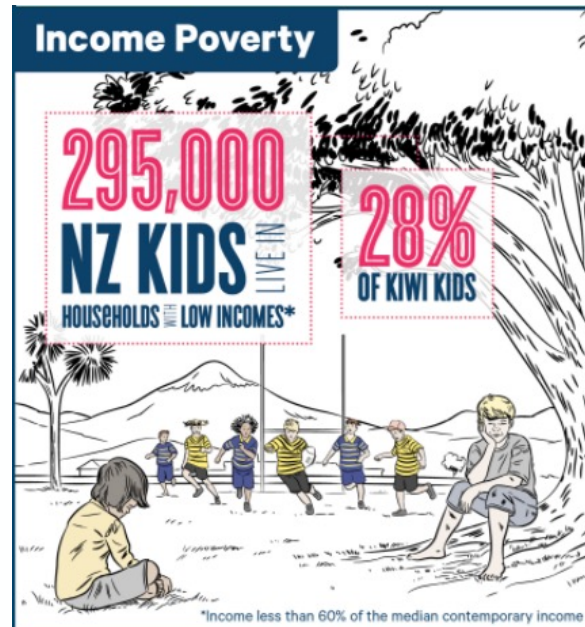
<http://nzchildren.co.nz/>

Nearly one in three New Zealand children 'living in poverty'.

15/12/2015,

"Child poverty - it's not choice." That's the message that outgoing Children's Commissioner Dr Russell Wills wants to spread through social media in a challenge to Government policy.

http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11561022



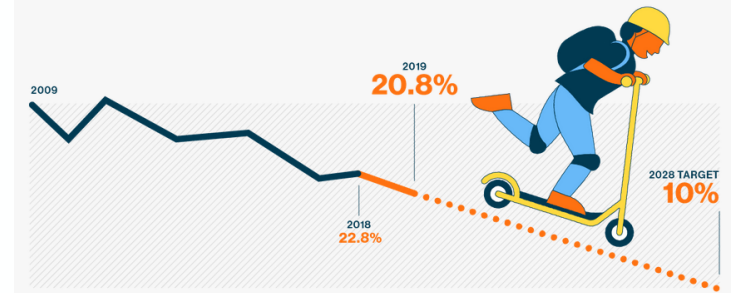
<http://www.childpoverty.co.nz/>

2015

Adequate income

235,400 or 20.8% of tamariki in Aotearoa New Zealand currently live in low-income households. These are households with less than 50% of the median equivalised disposable household income for the 2017/18 base financial year after housing costs.

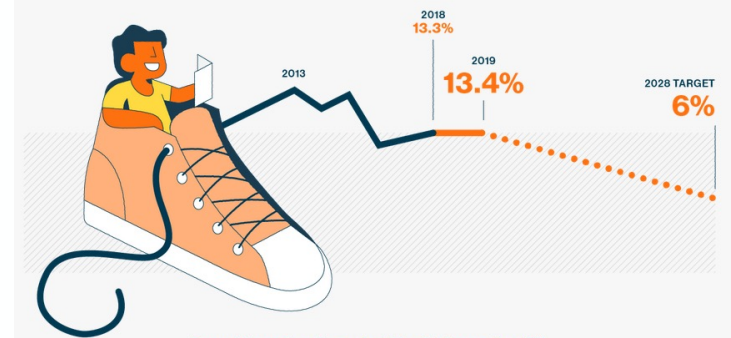
By 2028, the Government has committed to reduce the number of tamariki in low-income households to 10%.



Tamariki in low income households over time (%)

Access to essentials

Over 150,000, or 13.4% of tamariki currently live in households experiencing material hardship. By 2028, the Government has committed to reduce this to 6%.



Tamariki experiencing material hardship over time (%)

<http://www.childpoverty.co.nz/>

Labour would lift 100,000 children out of poverty by 2020 – Ardern

5 September 2017

"My goal is to eradicate child poverty in New Zealand," she said.

In the debate she claimed **290,000 children in New Zealand were living in poverty.**

<https://www.radionz.co.nz/news/political/338701/labour-would-lift-100-000-children-out-of-poverty-by-2020-ardern>

Jacinda Ardern's goal: End child poverty

20 August 2017

Labour leader Jacinda Ardern has used the Labour Party campaign launch to lay out her goal of ending child poverty in New Zealand.

Labour would start by officially measuring child poverty and passing a law forcing the Government to publish the numbers every Budget.

<http://www.newshub.co.nz/home/election/2017/08/jacinda-arden-s-goal-end-child-poverty.html>

What is poverty?

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 113)

"**Absolute poverty** is generally based on the notion of subsistence, the minimum needed to sustain life.

A "**Not enough**"
concept of poverty

A **relative approach**, on the other hand, clearly requires many a judgement call. Relative poverty is about the standard of living (actual or potential) of those identified as poor compared with that of those declared to be non-poor."

A "**less than others**"
concept of poverty

I need 11 volunteers...

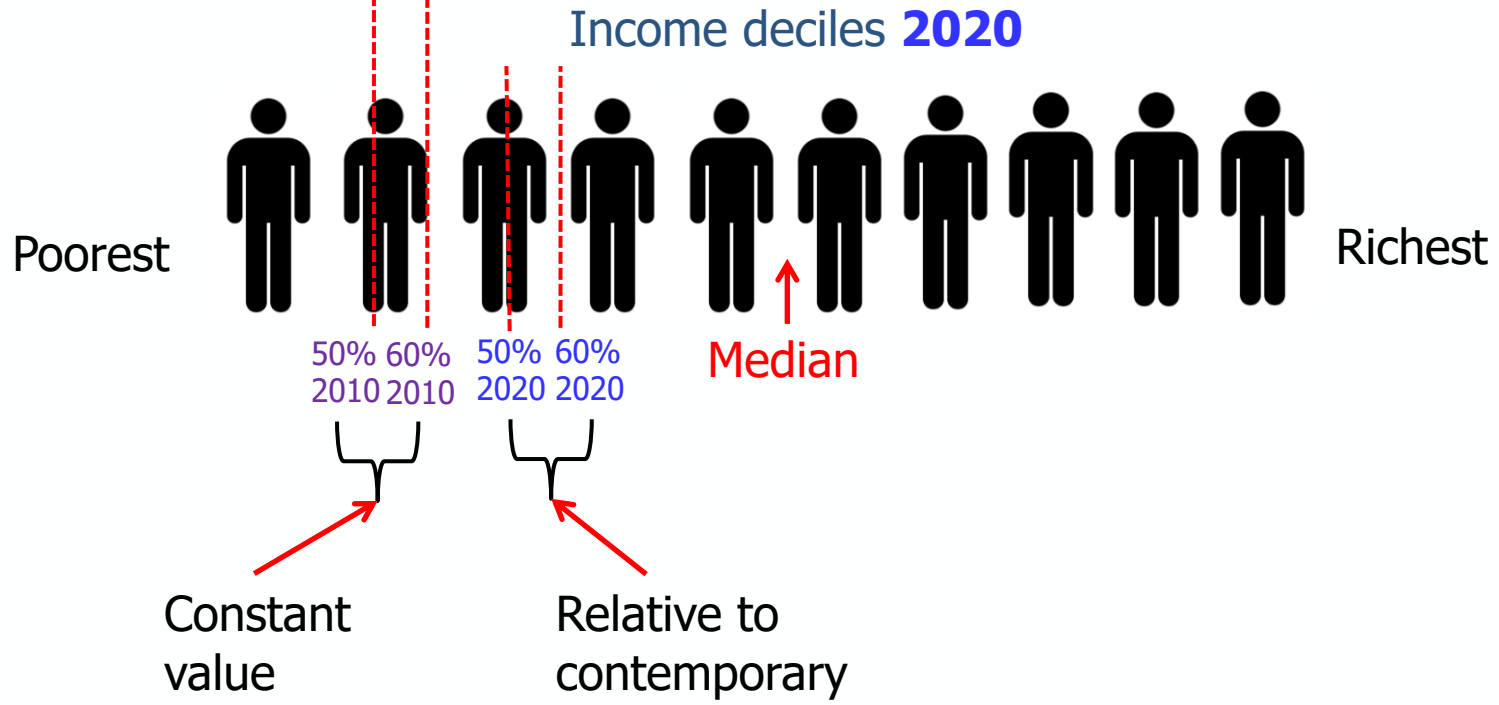
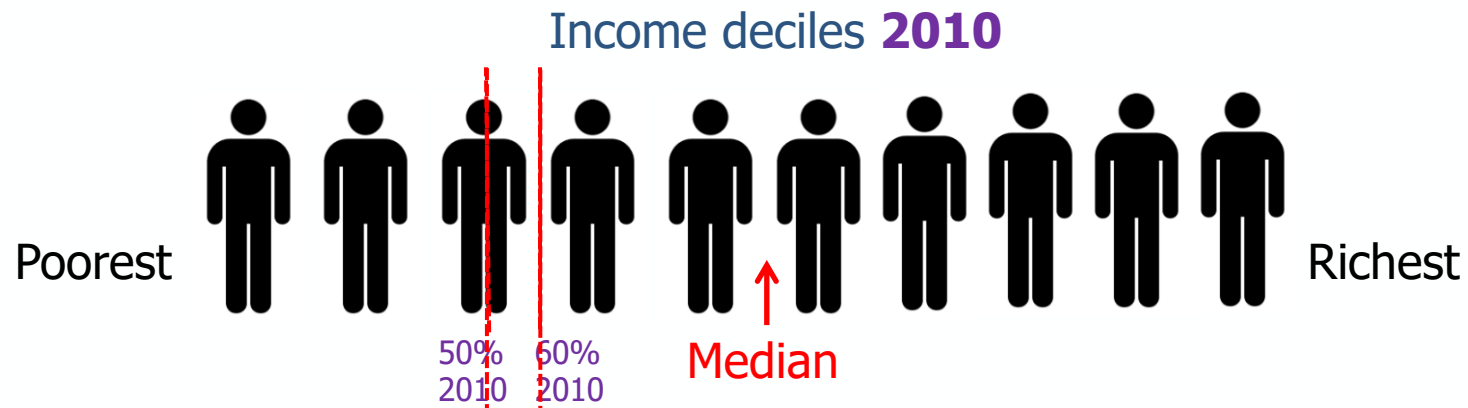
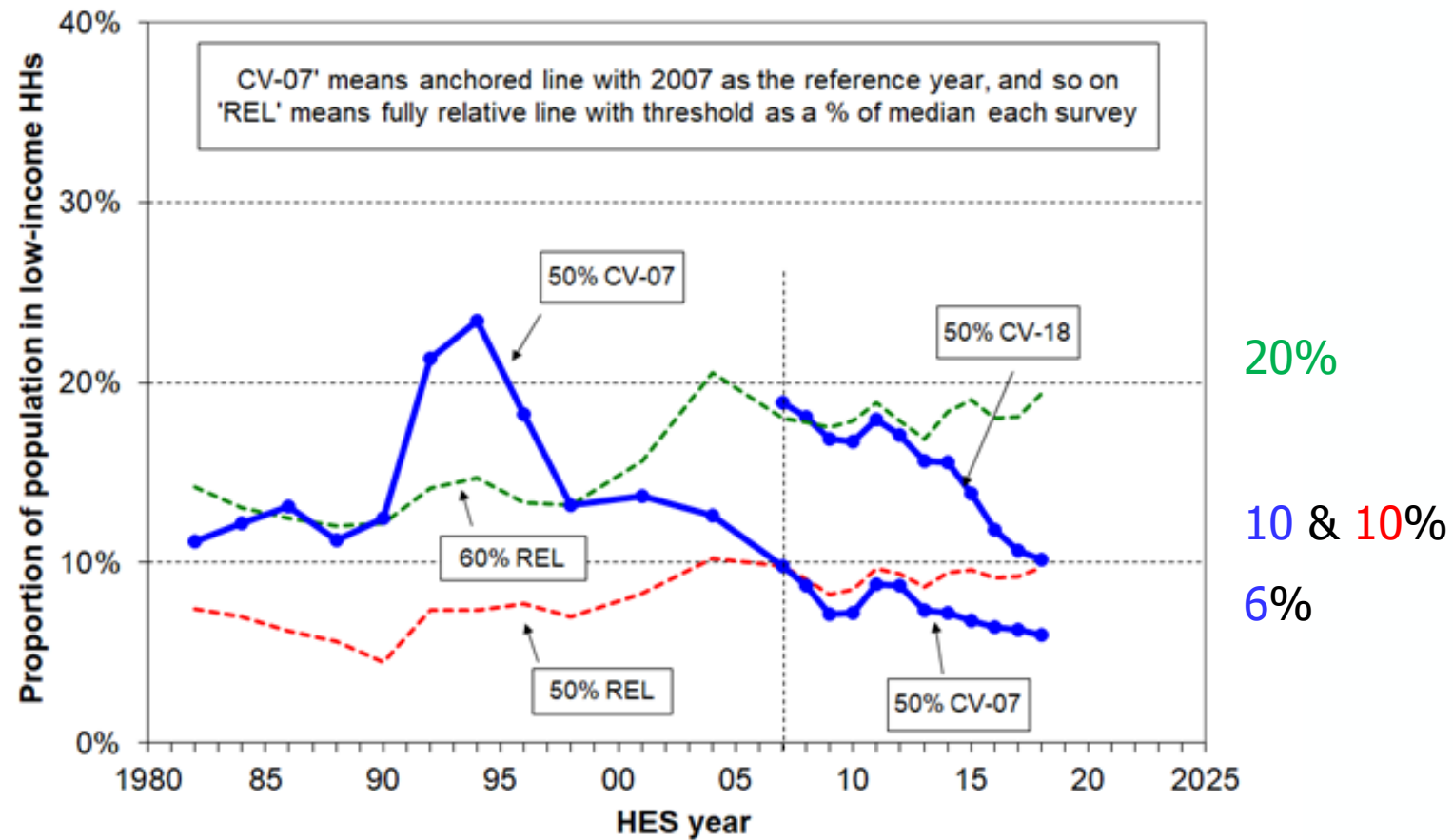
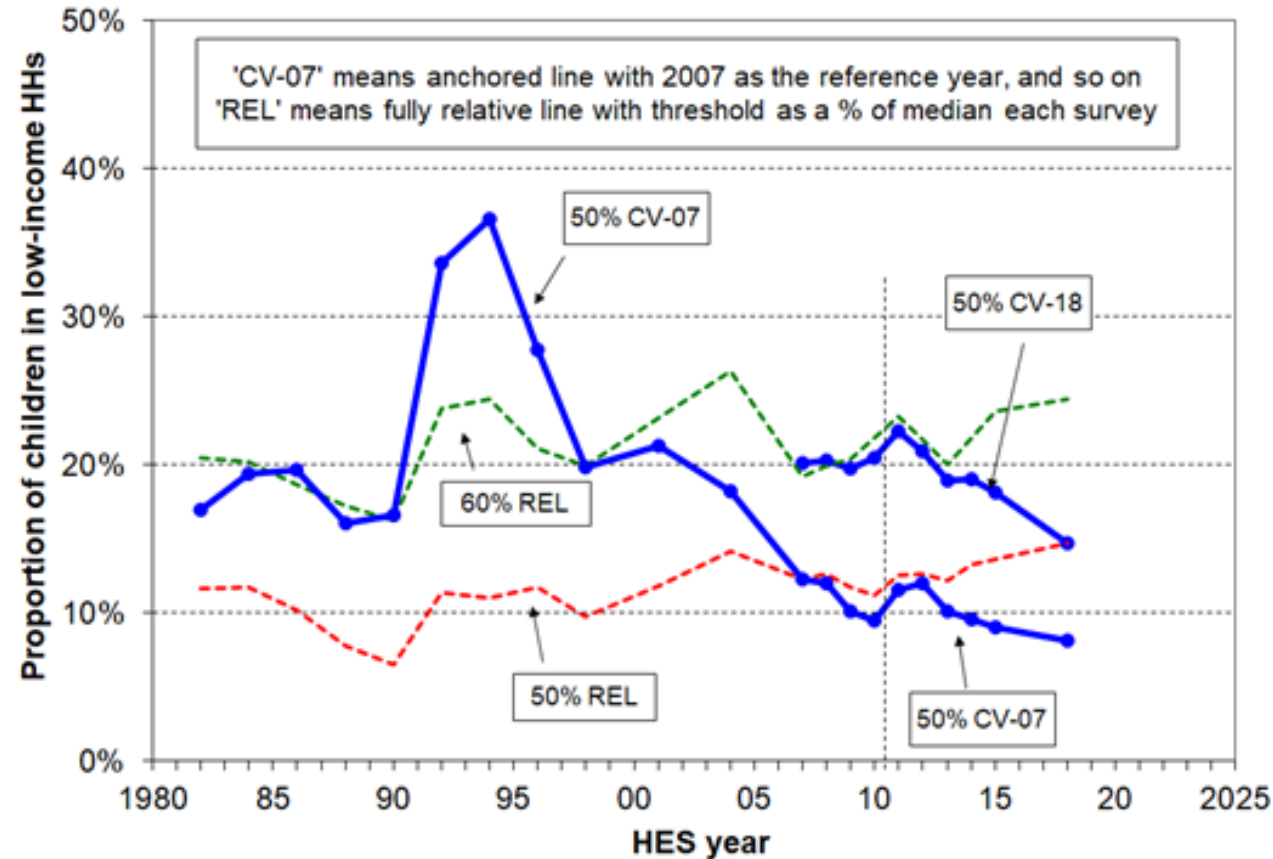


Figure F.1
Proportion of whole population below selected thresholds (BHC):
fixed line (CV) and moving line (REL) approaches compared



(Table F.3)

Figure F.3
Proportion of children below selected thresholds (BHC):
fixed line (CV) and moving line (REL) approaches compared



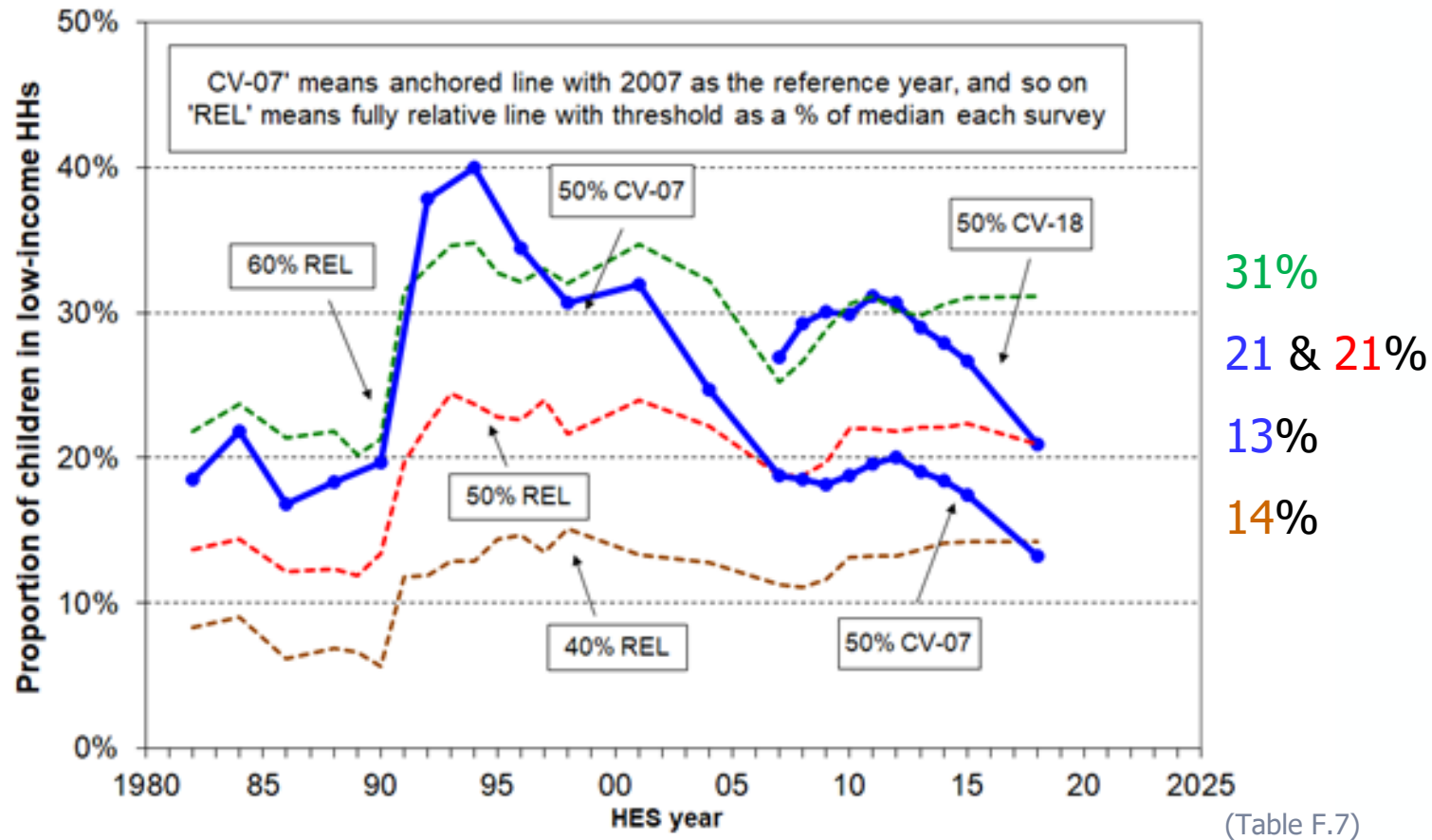
24%

15 & 15%

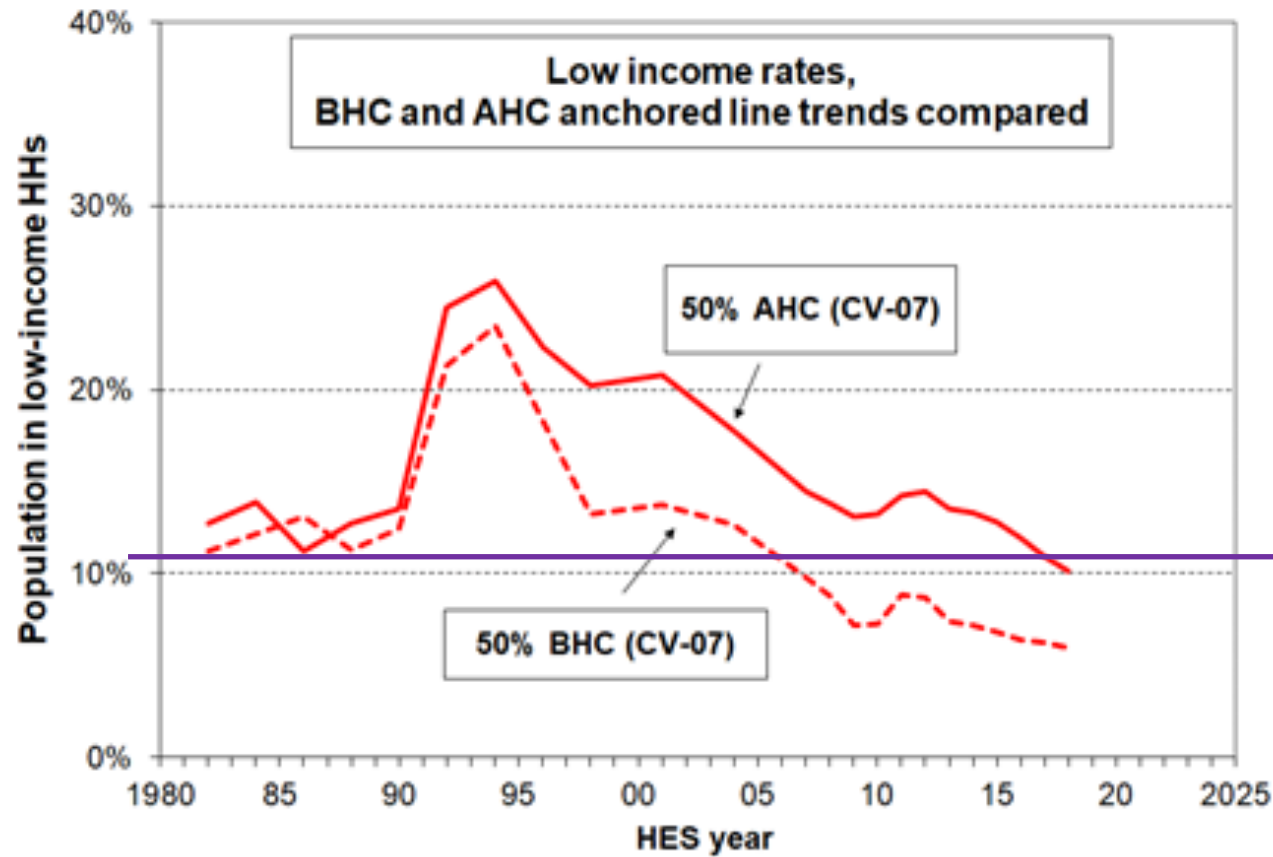
8%

(Table F.6)

Figure F.4
Proportion of children below selected thresholds (AHC):
fixed line (CV) and moving line (REL) approaches compared



How does "1 in 3" arise?



What is the implication for policy here?

1980s low point

"Over the last three decades housing costs have continued to take a much larger proportion of household income, especially for low-income households."
Page 136

Updated values from Statistics NZ

	Less than 50% REL (BHC)	Less than 60% REL (BHC)	Less than 60% REL (AHC)		Less than 50% REL (AHC)	Less than 50% CV (2017-18) (AHC)
Year	Percent	Percent	Percent	(000s)	Percent	Percent
2007	14.0	23.9	29.3	314.2	22.4	
2008	14.5	23.4	33.0	355.2	23.9	
2009	14.0	22.2	31.4	338.7	23.8	30.5
2010	14.1	22.4	29.7	321.9	21.9	26.9
2011	14.9	23.3	30.2	328.1	21.9	30.9
2012	14.8	23.3	28.9	314.3	22.2	29.1
2013	15.6	23.6	29.3	318.3	21.9	26.9
2014	14.5	23.4	29.3	317.8	23.0	27.3
2015	16.3	24.6	30.5	331.2	23.8	27.2
2016	15.4	23.3	29.8	325.7	22.3	24.3
2017	14.2	22.1	28.4	313.6	21.4	22.4
2018	16.5	25.3	30.6	341.1	22.8	22.8
2019	13.5	22.1	27.7	313.2	20.1	18.3
2020	13.2	21.8	27.8	318.1	19.5	17.8
2021	13.0	20.7	27.5	315.6	19.6	15.0
2022	12.0	20.7	28.5	327.9	19.4	15.4

Labour would lift 100,000 children out of poverty by 2020 – Ardern

5 September 2017

In the debate she claimed **290,000 children** in New Zealand were living in poverty.

Econgraphs\Lect32 Child poverty stats...

<https://www.stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2019>

'Pension' for kids could level income inequality between young and old

Susan Edmunds · 05:00, Dec 15 2019



A "pension" for children is being touted as one way to address child poverty in New Zealand – and there's a suggestion it could be funded by means-testing superannuation.

Data released this week by Children's Commissioner Andrew Becroft showed 17 per cent of New Zealand children now live in households existing on less than 50 per cent of the median household income.

The Government has pledged to get the child poverty rate to 10 per cent by the end of the 2021 financial year.

<https://www.stuff.co.nz/business/118174774/pension-for-kids-could-level-income-inequality-between-young-and-old>

The MSD can have the last word...

"Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2018" Ministry of Social Development, October 2019. (Page 112)

"All income poverty measures, even official ones, are constructs requiring judgement calls."

These calls... reflect or imply underlying assumptions.

There is no clear delineation between the poor and the non-poor that science can identify independent of judgment.

This is not to say that any measure will do nor that all measures are equally suspect – some are clearly more defensible and reasonable than others.

What is crucial in discussing poverty rates and trends is to identify what measure is being used, and to be aware of the different rationales for and pictures presented by the different measures."

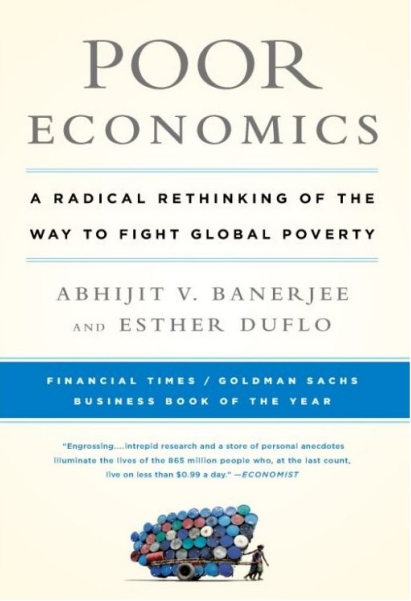
<http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

Measuring child poverty: Concepts and definitions

The Child Poverty Reduction Act ('the Act') was introduced in 2018 to help achieve a significant and sustained reduction in child poverty in New Zealand. The Act requires government to set three-year and ten-year targets on four primary measures, and that the Government Statistician will report annually on 10 measures of child poverty.

- a) Low income: less than 50% median equivalised disposable household income before housing costs (BHC) for the financial year
- b) Low income: less than 50% median equivalised disposable household income after housing costs (AHC) for the base financial year
- c) Material hardship
- d) Poverty persistence [Note: definition not required until the financial year beginning 1 July 2025]
- e) Low income: less than 60% median equivalised disposable household income before housing costs (BHC) for the financial year
- f) Low income: less than 60% median equivalised disposable household income after housing costs (AHC) for the financial year
- g) Low income: less than 50% median equivalised disposable household income after housing costs (AHC) for the financial year
- h) Low income: less than 40% median equivalised disposable household income after housing costs (AHC) for the financial year
- i) Severe material hardship
- j) Low income and hardship: less than 60% median equivalised disposable household income after housing costs (AHC) for the financial year and material hardship.

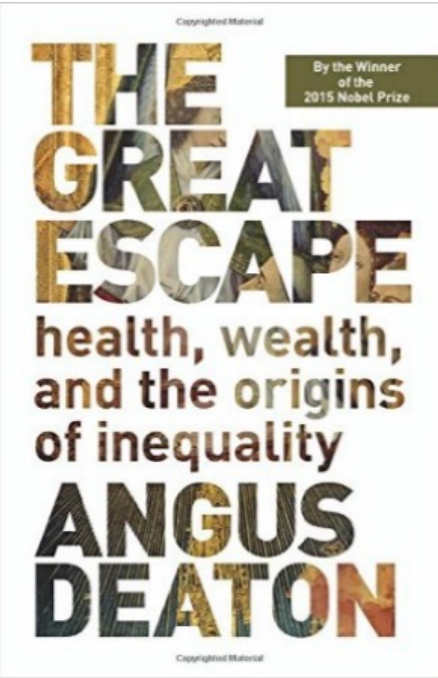
My dog's recommendation for your summer reading at the beach...



My dog gives this a 9

“Great book for thinking about what actually works and testing it. Woof**.”

** Very good

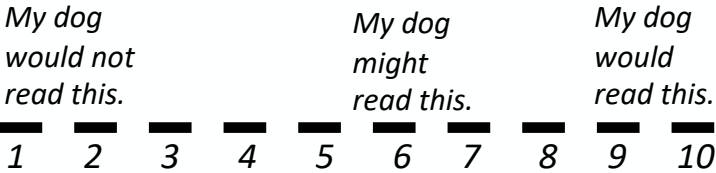


My dog gives this a 10

“Written by a Nobel prize winner. A really good broad sweep and easy to read. Woof woof.”



“Books score more the easier they are to read, the shorter they are and the less technical they are.” – Jesse.



This is the Youtube one

<https://www.youtube.com/watch?v=meiU6TxysCg>

<http://gregmankiw.blogspot.co.nz/2012/08/monkey-dislike-unequal-pay.html>