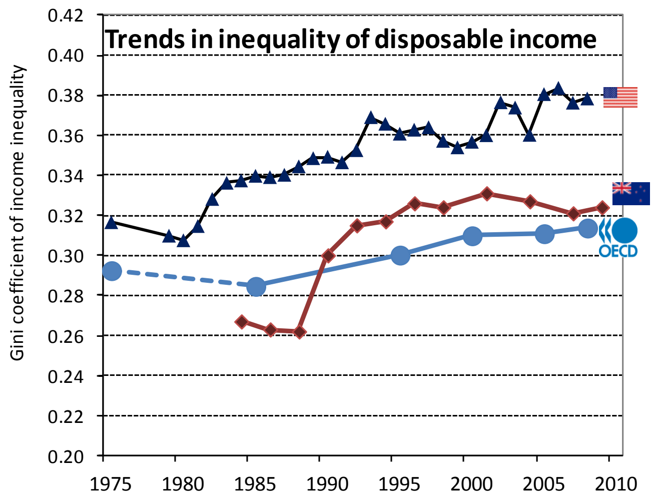
OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

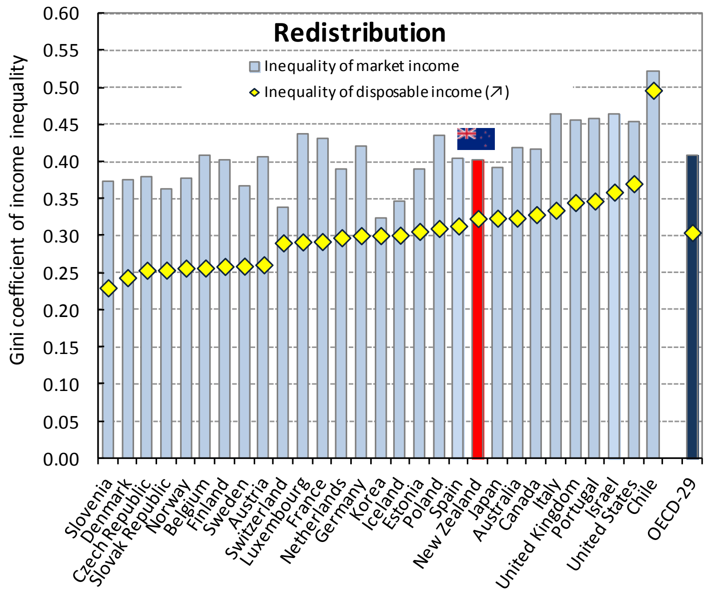
www.oecd.org/els/social/inequality

COUNTRY NOTE: NEW ZEALAND

Income inequality among working-age people in New Zealand has increased rapidly over the past 25 years, but especially during the 1990s, with the gap remaining broadly flat since. Inequality was below the OECD average until 1990 but is above average today (se left-hand figure below). The increase in inequality between 1985 and the late 2000s was the largest among all OECD countries, with the exception of Sweden. In 2008, the average income of the top 10% of was 113 000 NZD, nearly 9 times higher than that of the bottom 10%, who had an average income of 13 000 NZD. This is up from a ratio of 6 to 1 in the mid 1990s.

Income taxes and transfers played a smaller role for redistributing income in New Zealand than in most other OECD countries, reducing inequality by less than a fifth—in a typical OECD country, it is a quarter [Figure6.1].





Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labour earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data in the right-hand panel refer to the working-age population. Information on data for Israel: http://dx.doi.org/10.1787/888932315602

Key findings:

- Over the past 25 years, real household incomes grew by 2.5% per year for the richest 10% of New Zealanders, but only by 1.1% for the poorest 10%. Most of the income growth took place after the mid-1990s.

- The share of top 1% of income earners rose from 6% in 1980 to 9% in 2005, and that of the top 0.1% of earners more than doubled from 1.2% to 2.7%. At the same time, top marginal tax rates declined from 60% in 1980 to 33% in 2010.

- Trends in employment and wages shaped the income distribution. The shares of wages and salaries in total household income saw a marked decrease between the mid-1980s and mid-2000s, especially for low-income households — by more than 11 percent. This is likely due to a large rise in the proportion of jobless households.

- Market driven inequality increased shapely between the mid-1980s and mid-1990s, while the tax and benefit system did little to counter the increase. Since then market income inequality decreased while inequality of disposable remained unchanged. Thus, the impact of taxes and benefits on reducing inequality declined over time: they reduced inequality by 28% in the mid-1980s, by 24% in the mid-1990s, but by only 20% today.

- The tax share of household income declined greatly since the mid-1980s, and especially so for the higher-income households (minus 10%). At the same time the share of government cash transfers in household income declined but their level (some 13% of household income) is lower than the OECD average (16%).

Key policy recommendations for OECD countries from Divided We Stand

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

The roles of globalisation, technological progress and regulatory reforms

Divided we Stand also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se- play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labour market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labour force also had a significant positive impact on employment growth.