Success Unshared is Failure

Max Rashbrooke
August 2016

A commentary on inequality
in New Zealand

**Prepared for Ann Pettifor of Prime Economics
and The Policy Observatory,
Auckland University of Technology**

About this report

This report is one in a series prepared for Ann Pettifor's visit to New Zealand in September 2016. The reports provide background information on challenges facing the New Zealand economy and society, and are available on The Policy Observatory website.

The Policy Observatory would like to thank Auckland University of Technology Vice-Chancellor Derek McCormack for sponsoring Ann's visit to New Zealand as an AUT Distinguished Scholar. Ann, a specialist in Keynesian monetary theory, is Director of Policy Research in Macro-Economics (PRIME), based in London. We would also like to thank Max Rashbrooke, the author of this report, as well as the other contributors to this series.

The Policy Observatory
Auckland University of Technology
Private Bag 92006
Auckland 1142

policyobservatory@aut.ac.nz
+64 9 921 9999 extn. 7531
https://thepolicyobservatory.aut.ac.nz/

Recommended citation: Rashbrooke, M. (August, 2016). Success unshared is failure. Auckland: The Policy Observatory.

Success Unshared is Failure

By Max Rashbrooke

When it comes to social development, New Zealand is, overall, a successful country. It is ranked ninth on the United Nations Human Development Index, and 10th equal on the global Social Progress Index, a set of social development indicators inspired by the work of Amartya Sen, Joseph Stiglitz and others.

New Zealand's performance on these indicators shows that it achieves high levels of well-being, opportunity and access to basic needs. But for whom? The above word 'overall' is crucial. New Zealand's high ranking obscures the fact that, more so than in most countries, its successes are not shared with the poorest and most vulnerable. If, as the American businessmen John Paul DeJoria has suggested, 'success unshared is failure', the country faces a serious reckoning about the distribution of its goods, both material and non-material.

In the two decades from the mid-1980s, income inequality (as measured by the Gini coefficient) increased more in New Zealand than in any other developed country.[1] Whereas someone in the richest 10th of the country had previously earned around five times as much as someone in the poorest 10th, they now earn 8-9 times as much. New Zealand is now ranked in the worst-performing third of the OECD when it comes to inequality.[2] Unsurprisingly, in recent decades, the number of children living in poverty has more than doubled. According to the Child Poverty Monitor, 29% of New Zealand's children – nearly one in three – were living in poverty in 2014, where poverty is defined as having less than 60% of average household income.

In addition to income inequality, New Zealand also has high levels of wealth inequality. In 2015, the wealthiest 1% of households had 22% of all net wealth, while the wealthiest 10th had 59%. This represents an increase from the mid-2000s. This inequality is currently being seen most strongly through the lens of housing, as homeownership rates have fallen to their lowest level in decades and housing has become increasingly unaffordable, especially in Auckland.[3]

[1] Max Rashbrooke, *Wealth and New Zealand*, Bridget Williams Books, Wellington, 2015, p.26.
[2] Max Rashbrooke, *The Inequality Debate: An Introduction*, Bridget Williams Books, Wellington, 2014, p.48.
[3] Selena Eaqub and Shamubeel Eaqub, *Generation Rent*, Bridget Williams Books, Wellington, 2015.

Since income and wealth are powerful determinants of life outcomes, and of the shape of society as a whole, it is not surprising that these inequalities mean that some groups are often shut out of the successes that New Zealand achieves. Socio-economic status is generally thought to account for at least 60% of children's achievement at school.[4] This is part of the reason why New Zealand, although a high performer in international education tables, also has one of the largest disparities between its high and low achievers. Again, the idea of a deeply divided nation is evident here.

Similar effects can be seen in health. New Zealand has high rates of conditions such as rheumatic fever and respiratory illness that are generally regarded as third-world issues and have largely been eradicated in other developed countries. Major drivers of this include poverty and the substandard quality of our houses, many of which are damp and mouldy and actively contribute to making children, and to some extent adults, unwell. New Zealand also has extremely high levels of unmet health needs.

In addition to these effects on individuals and families living in poverty, economic inequality also has a broader effect on the social fabric. As income and wealth imbalances widen, the different ends of the spectrum begin to live apart from one another and to lose empathy and a sense of the lives of others. This reduces social cohesion and trust, weakens people's ability to understand social issues, and ultimately threatens a democratic system that relies on people making knowledgeable votes about how the rest of the country will be affected by certain policies.[5] People's desire to get involved in community activities in neighbourhoods different to theirs also declines.

Economic inequality also raises questions about the opportunities open to New Zealanders and the transmission of advantage, and disadvantage, between generations. It is well established internationally that high levels of economic inequality lead to low levels of social mobility, as measured by the amount of an individual's income that can be predicted from their parents' earnings.[6] This occurs because, in countries with large income and wealth imbalances, wealthy parents can give their children very different starts in life compared to those of poorer children.

[4] John Hattie, 'Teachers Make a Difference: What is the research evidence?', paper for the Australian Council for Educational Research Annual Conference on Building Teacher Quality, October 2003.
[5] Max Rashbrooke (ed.), *Inequality: A New Zealand Crisis*, Bridget Williams Books, Wellington, 2013.
[6] Rashbrooke, *Wealth and New Zealand*, p.28.

New Zealand has limited data on social mobility; the data that does exist suggest that around one-third of an individual's income can be predicted from their parents' income, placing New Zealand in the middle of a pack of developed nations. (In Denmark, the figure is less than one-fifth, while in the USA it is 50%.) However, that data was generated in the 1990s, and given inequality in New Zealand has worsened since then, it follows that intergenerational transmission of advantage and disadvantage is likely to have strengthened.

Economic inequality is also likely to be having a corroding influence on politics. One of the traditional concerns about inequality, stressing the role of the wealthy, is that those with higher incomes and/or wealth may be able to exert disproportionate influence on politics, since politicians rely on large donations to run parties and election campaigns. This can be clearly seen in the United States, where the work of Martin Gilens and others clearly demonstrate that politicians there respond to the demands of their wealthy voters, not those of their lower or middle-class voters.

In New Zealand, we lack such fine-grained evidence, but donations from wealthy individuals are certainly significant in our politics. Between 2011 and 2014, large donations that can be assumed to come predominantly from those with significant wealth totalled $12 million, while political parties' total advertising spending in the run-up to the 2014 general election was $8.9 million. In addition, numerous recent scandals surrounding major donors to political parties suggest that money certainly has some kind of influence.[7]

Finally, inequality may also be lowering economic growth, which matters to the extent that growth leads to higher living standards. Recent research from both the OECD and the IMF suggests that more equal countries have stronger growth rates, and that rising inequality has reduced the growth of the New Zealand economy by as much as one third over the last two decades.

The causes of these increased income and wealth imbalances are many and complex. In the long run, some of it has to do with globalisation, which has seen many industries shift overseas, and factors such as household formation, in the sense of wealthy individuals increasingly marrying each other, and the growth of sole parent households.

[7] Rashbrooke, *Wealth and New Zealand*, p.44.

However, income inequality in particular increased very rapidly in the late 1980s and early 1990s, pointing the finger at policies that have immediate effect – notably those that result from political decisions. During that period, New Zealand reduced its top tax rate from 66% to 33%, cut welfare benefits by up to one third of their value, and altered its collective bargaining laws so that the proportion of the workforce covered by a trade union fell from 70% to 20%.[8] The share of national income going to wages and salaries (labour) as opposed to investors (capital) has fallen sharply since the 1980s.

Wealth inequality has also been affected by a far-reaching programme of asset sales, again particularly in the 1980s and 1990s, the benefits of which went disproportionately to wealthy investors. Another major driving force, referred to above, has been housing inequality.

In many cases, these effects compound. In New Zealand's most disadvantaged communities, jobs are often in short supply because those communities relied on industries that went overseas once trade barriers were lifted, and relatively little has been done, compared to the efforts of other countries, to re-train those workers. The health of those communities is often poor, in part because New Zealand has high charges to see a GP, even for those on low incomes.

Schools in disadvantaged communities often struggle, in part because their increased public funding does not compensate for the greater private fundraising ability of wealthy schools.[9] Schools in poor communities work with children dealing with multiple forms of disadvantage, and New Zealand's education system, in which schools operate as isolated, stand-alone units, makes it difficult for them to access support.

Issues around poverty and inequality are often blamed on individuals, on the supposition that their situation depends on their individual choices alone. But the research base provides little evidence to suggest that those on low incomes lack motivation or the ability to manage their household budgets. Nor is there evidence to suggest that New Zealand's highest earners are significantly more talented or hard-working than their forebears.

[8] Rashbrooke, *The Inequality Debate*, pp.57-62.
[9] Rashbrooke (ed.), *Inequality: A New Zealand Crisis*, p.138.

Instead, the research points towards the importance of structural factors, such as the tax and welfare policies mentioned above, and the availability, or lack thereof, of good jobs, housing and transport in particular areas. Lying behind all of this is the much reduced role of government in New Zealand life. New Zealand is currently on a path towards government spending making up less than 30% of GDP, a very low level in a world in which some countries – with much stronger economies and better social outcomes – have a government spend closer to 50% of GDP.

New Zealand was traditionally a country with a strong and active state - in some cases too much so; few would dissent from the view that the economy was overprotected and overregulated by the early 1980s. Since that time it has swung in the opposite direction, as can be seen in health and education problems. This change reflects social attitudes that show up in public survey data. Although concern about inequality is very high among the New Zealand public, attitude surveys have tended to show that relatively few people feel it is the government's role to deal with the problem.

Given that much (though not all) inequality and poverty is driven by structural factors, these beliefs are clearly an obstacle to making progress on tackling social problems – and therefore to ensuring that, to return to the point at the beginning of this paper, the successes that New Zealand generates are widely shared. Government is the only institution with both the legitimacy to compel redistribution and the ability to operate at scale. Genuine success, then, will occur only if New Zealand can come to a new understanding about the role of government in the 21st century.

About The Author

Max Rashbrooke is the author of *Wealth and New Zealand*, published by Bridget Williams Books (BWB) in November 2015. He edited the best-selling *Inequality: A New Zealand Crisis*, published in June 2013, also by BWB. He is a research associate of the Institute for Governance and Policy Studies at Victoria University of Wellington. As a journalist, he has written for outlets in Britain and New Zealand including the *Guardian*, the *National Business Review* and *Metro*. He has twice been the recipient of the Bruce Jesson Senior Journalism Award, and was a 2015 Winston Churchill Fellow. His current project is a book on the renewal of government in the twenty-first century.

About The Policy Observatory

Based at Auckland University of Technology, The Policy Observatory provides a lens on public policy in Aotearoa New Zealand. We both conduct and commission research on economic, social and environmental policy issues, with the intention of publishing results in a form that is accessible to the general public.We work in a collaborative, networked way with researchers across institutions and in the private sector. Ultimately, we are concerned with how policy advances the common good.