

Poverty, Inequity and Inequality in New Zealand

Inequality and Inequity

Equity is fairness or justice with individual circumstances taken into account. It is also a matter of opinion what is equitable and what is not. Therefore, inequity is unfairness or injustice (or lack of fairness and justice) within a society.

Equity can be split into horizontal equity and vertical equity:

- Horizontal equity (the equal treatment of equals) is providing equality of treatment for similar groups e.g. if two people earn \$25000, they should both pay the same amount of income tax.
- Vertical equity (the unequal treatment of unequals) is providing different treatment to different groups e.g. a person on a higher income should pay more tax than a person on a lower income.

Equality means the same for everyone, regardless of individual circumstances. Therefore, inequality means that it is not the same for everyone within a society e.g. some people have higher incomes than others.

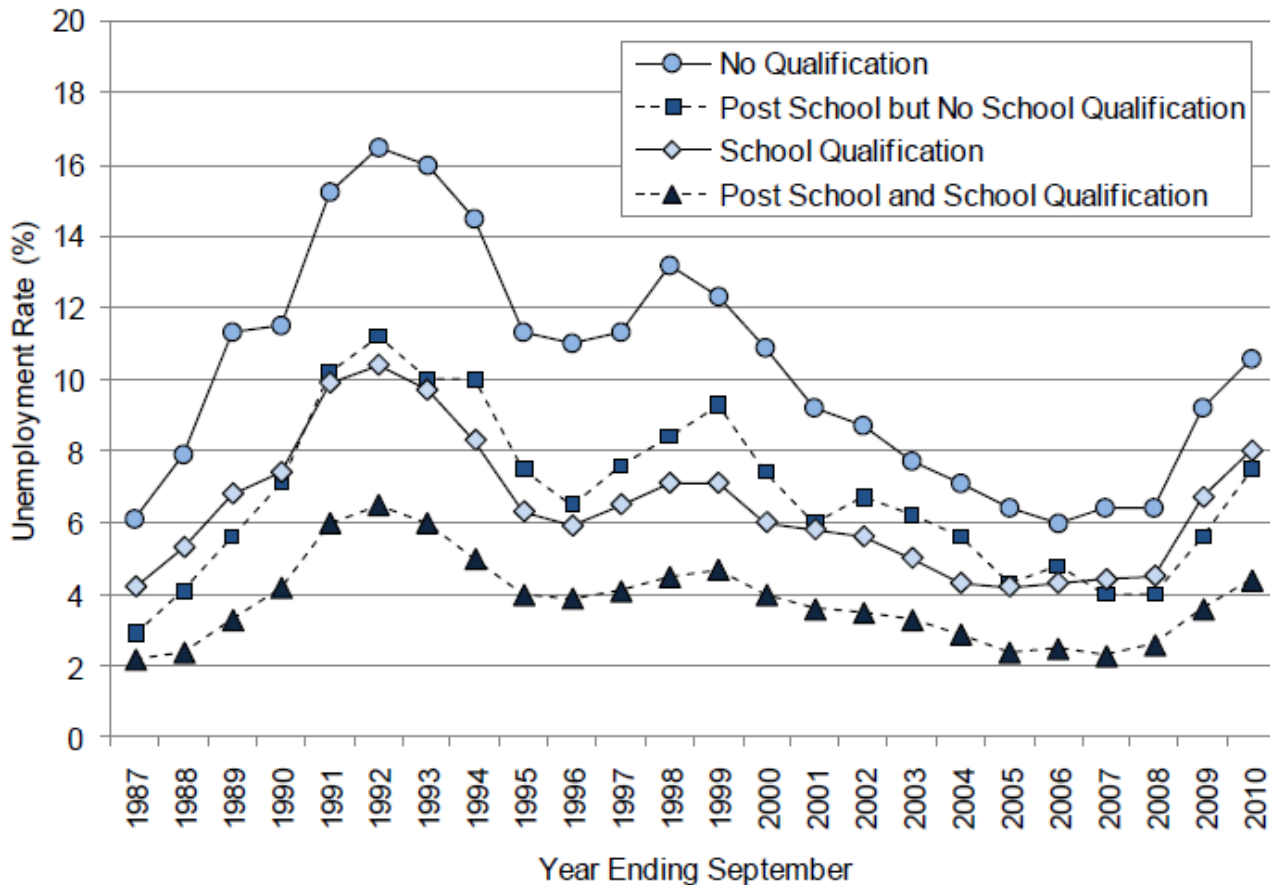
Causes of Inequality/Poverty in New Zealand

Inequality of income and poverty within New Zealand is caused by a few different factors that lead to a bad education, bad job, and bad income and overall, a bad life.

1 in 5 children in New Zealand live in poverty. If we look at relative poverty, it means that the household's financial resources (e.g. income) fall below an average income level. If a household has a low income, it means that they will not be able to afford the basic necessities needed to survive. Lack of good, healthy food will mean that children are more likely to catch viruses and diseases. This means that they will be unable to attend school that much, as they are often sick. Lack of food also leads to lack of focus within a classroom, which can lead to children becoming disruptive, and not learning what they need to learn. Sose Annadale (a school principal) says that "children cannot learn if they are hungry." Households on a low income will not be able to afford adequate housing, so as a result, they live in cold, damp, mouldy and overcrowded homes (as people come to stay with relatives when they can't afford their own home). These homes will contribute to sickness, as viruses will thrive in the damp conditions. The overcrowding will also allow viruses to spread quickly from one person to another, increasing the chances of people getting sick. As children in these households are constantly sick, they will miss out on school and the chance for a good education. The lack of education will lead to these children only being able to get low-paying jobs (or be unemployed) because they didn't get the

qualifications they needed. With low-paying jobs these children (now adults) will be unable to afford good housing and food for their families, and this will lead on to another cycle as their children receive a bad education because of lack of food and sickness.

Figure 16. Annual Unemployment Rates by Qualification, New Zealand September 1987-2010

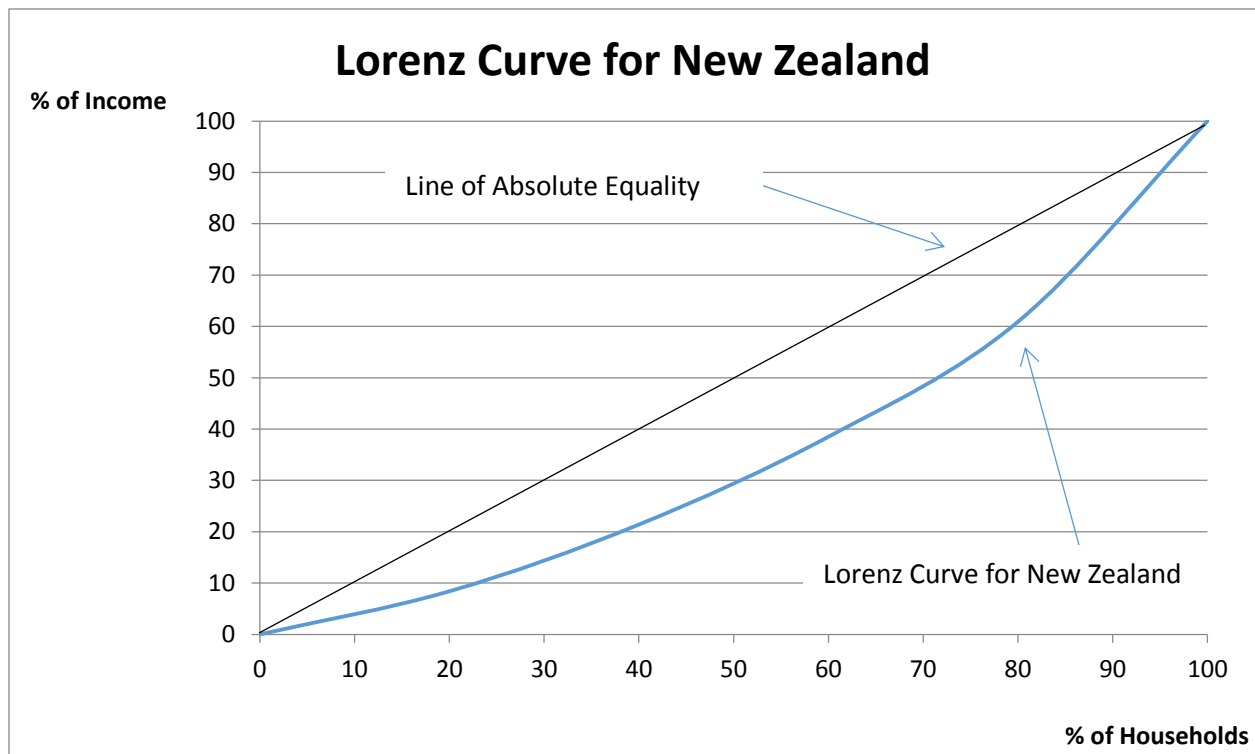


Source: Statistics New Zealand Household Labour Force Survey

This graph shows how children who did not get a qualification, have the highest unemployment rates as adults (between 10% - 12% as at 2010). The ones that did receive a qualification have a greater chance of being employed. School qualifications will give a child the ability to get a good paying job in the future and support their family with good housing and food. The people with no qualifications will be paid a lot less and because of this will be unable to support their family fully and their children will enter the poverty cycle.

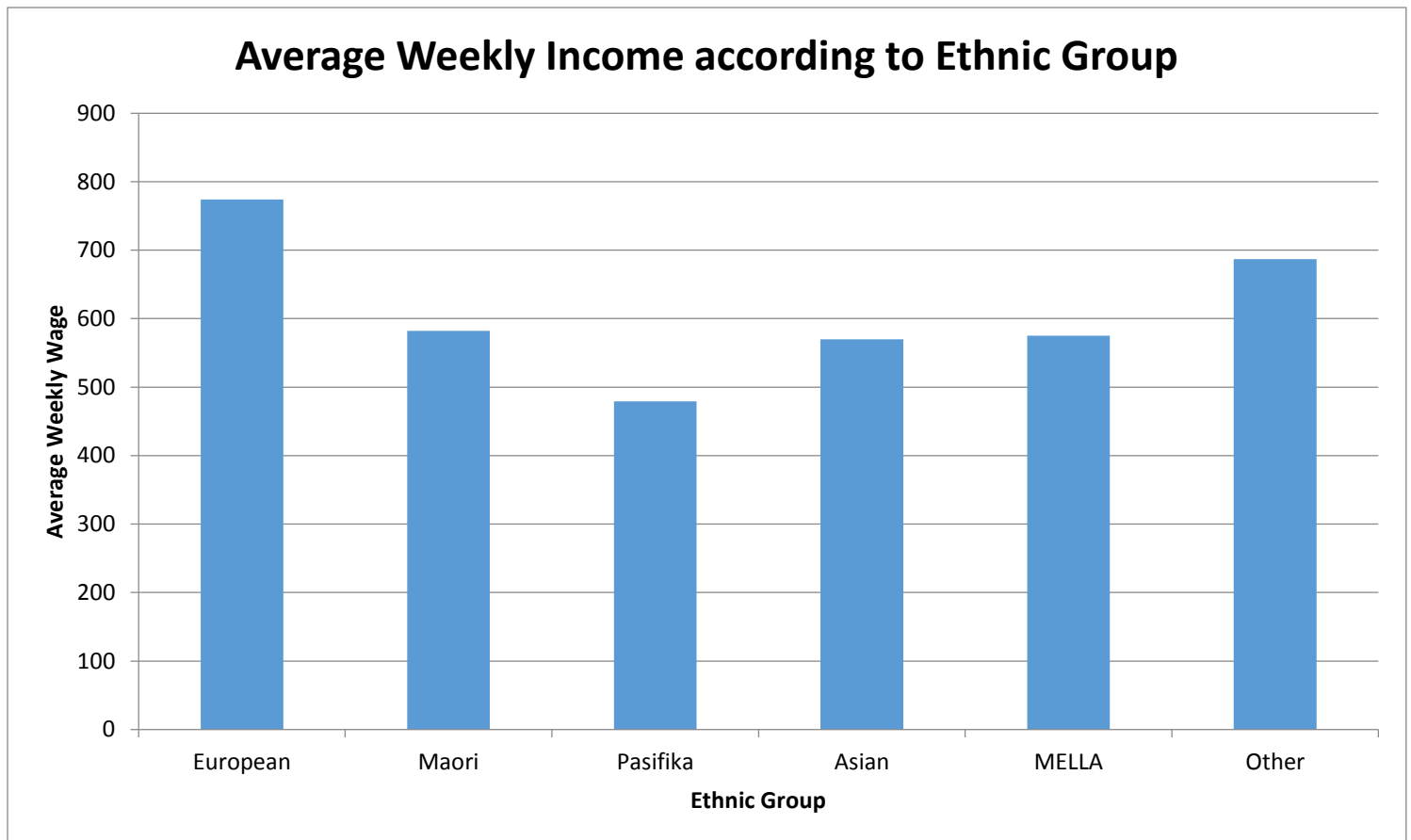
The inequality side of things come into this as the children living in poverty do not receive the same education as other children as their parents are on low incomes and are unable to afford to keep them healthy. Educated people generally receive a higher income than the uneducated and this is unequal as the low income earners cannot support their families properly.

Lorenz Curve for New Zealand and how it shows Inequality



A Lorenz Curve attempts to show the extent of the inequality of income distribution in an economy. The straight line shows what an economy with perfect equality of income would be like. In an economy like this, 20% of households would receive 20% of the income and 40% of households would receive 40% of the income. In New Zealand the lowest 50% of households only receive about 30% of the national income, while the top 50% of households receive about 70% of the national income. This is quite a high level of inequality as the national income is spread unequally throughout New Zealand's households. Since the lower 50% of households in New Zealand receive only 30% of the national income, these households will be on relatively low incomes. This will cause poverty as they are unable to afford all the basic necessities they require to survive. This will impact on their children as they will not have enough nourishment to stay healthy and will miss out on lots of school. This will lead to a bad education and little or no qualifications. With bad schooling, these children will be unable to get good paying jobs and end up on low incomes and will be unable to fully support their families. The poverty cycle will start all over again.

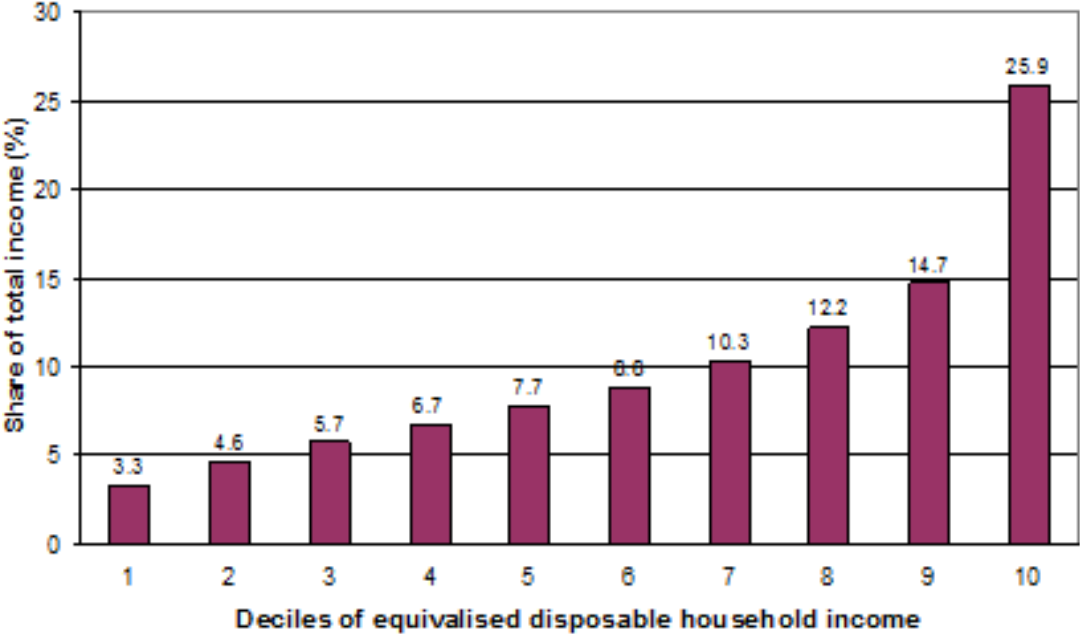
Ethnic Groups and Inequality of Income in New Zealand



From this graph we can see that Europeans receive the greatest weekly income of \$774 per week. The 'other' category receives the second highest average weekly income at \$687 per week. Maori came up third with \$582 per week, MELAA (Middle Eastern, Latin American and African) fourth at \$575 per week, Asian fifth with \$582 per week and finally, Pasifika sixth at \$479 per week. We can see that Europeans receive a significantly higher average weekly income than every other ethnic group. This is a high inequality of income because of the big differences in average weekly income. This could be considered inequitable as it is not fair that people should be living on a lower wage than others. The people that argue this point would also say that we should have perfect equality of income – everyone receives the same income no matter what your job. Then there is the other side of the argument saying that people who perform more important jobs, such as a doctor, should receive more income than say, a rubbish collector. This is because the person who became the doctor had to go through years of medical school to get where they are now. They also are helping to save people's lives, so a higher income should be fair compensation for all the work they did to get there and what they do now. Those on lower incomes may have come through poor homes where there wasn't

enough food and access to medical care when they needed it. This would lead to poor schooling and a bad paying job in the future. However, there are others who just couldn't be bothered with school and end up with a bad job because of their choices not because of their situation at home. Those on higher incomes may have come through a good household with enough income to purchase the necessary food and medical care they need. These people would be able to get a good education and apply for high paying jobs in the future.

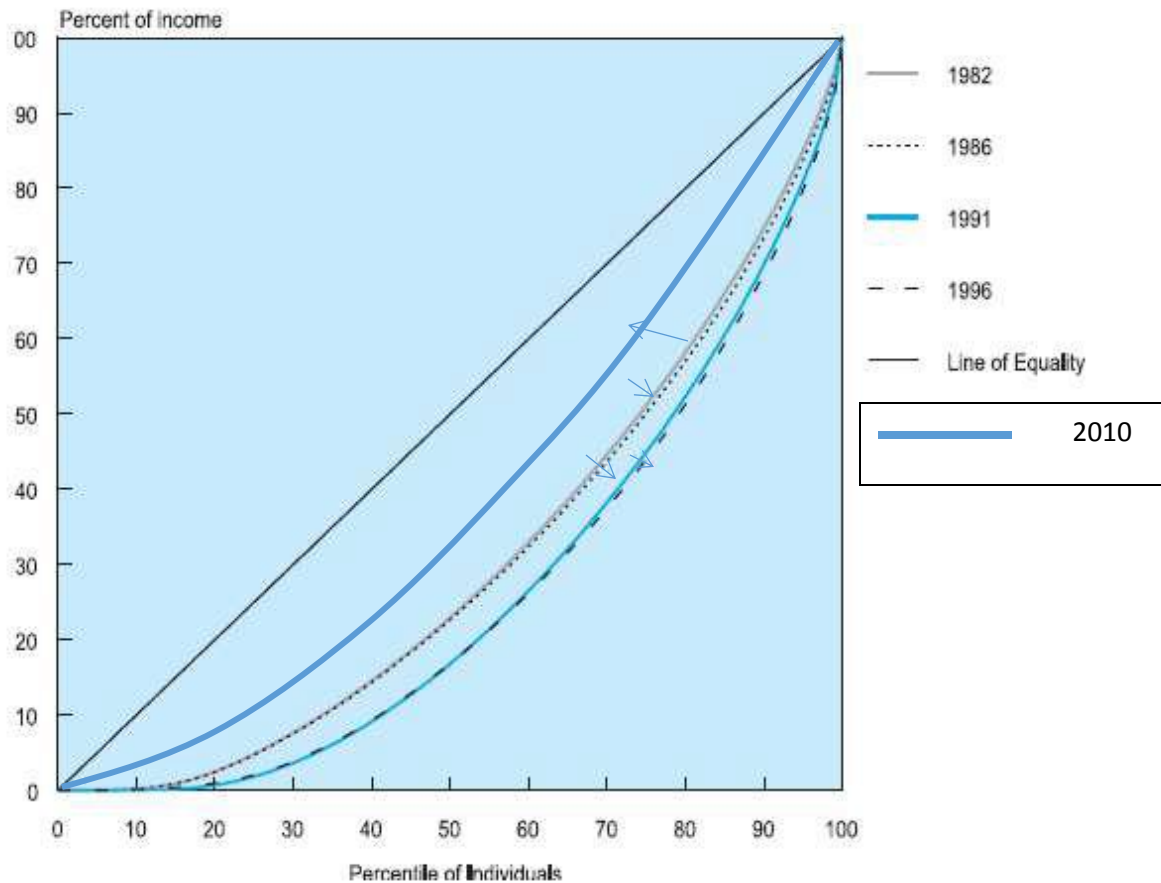
Shares of total income by deciles: HES 2008



This graph shows what share of the total income the different deciles receive. The highest decile receives almost 9x more of the total income than the lowest decile. The most likely ethnic group to be the lower deciles would be Pasifika as they receive the lowest average weekly income than any other ethnic group. The higher deciles would be most likely to contain Europeans and Other ethnic groups as they receive the highest average weekly income. The other Maori, Asian and MELAA would be most likely to be in the middle deciles. A great inequality of income is shown through this graph as the higher deciles receive a significantly higher percent of the total income than the lower deciles.

Changes in Inequality in New Zealand

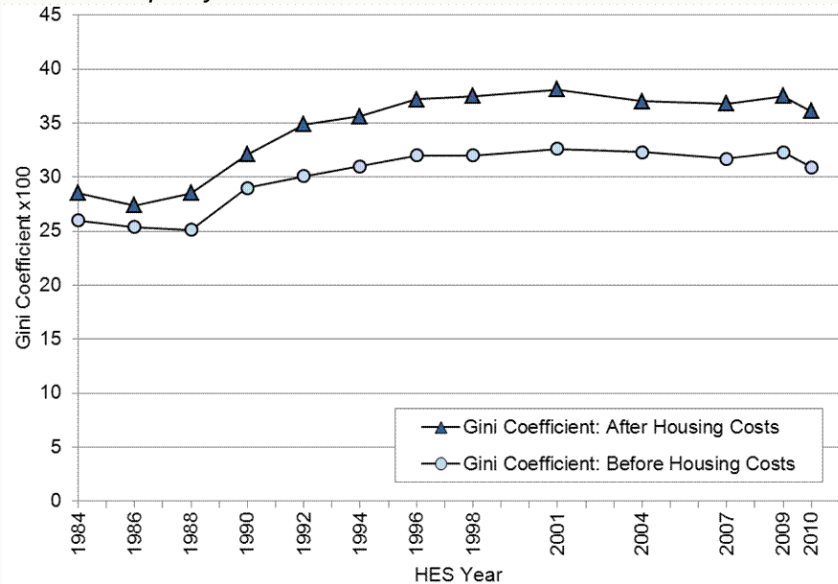
Household Market Income Lorenz Curves 1982-2010



Inequality of income has improved during the last 14 years. But before that, inequality of income in New Zealand was getting worse. During the Lange/Douglas Labour government in the late 1980's, inequality was relatively low, but when National came into power under Bolger/Richardson, during the 1990's, inequality of income increased dramatically. We can see this change through the Lorenz Curve shown above as the Curve shifts to the right more during the 1990's. This shows inequality of income becoming worse which leads to the poor becoming poorer and the rich becoming richer. The Gini Coefficient below also shows this trend as the values increase during the 1990's showing an increase in inequality of income in New Zealand. Due to a large amount of inequality in income in New Zealand, the poorest households will receive even less of the national income, and the richer households will receive even more of the national income. This is very inequitable, as rich people are getting even richer while poor people are getting poorer. From about 1996 onwards there was a decrease in inequality in income in New Zealand. This was because a new Labour government under Clark/Cullen came into power. This is shown on the Lorenz Curve by a shift of the curve to the left, and on the Gini

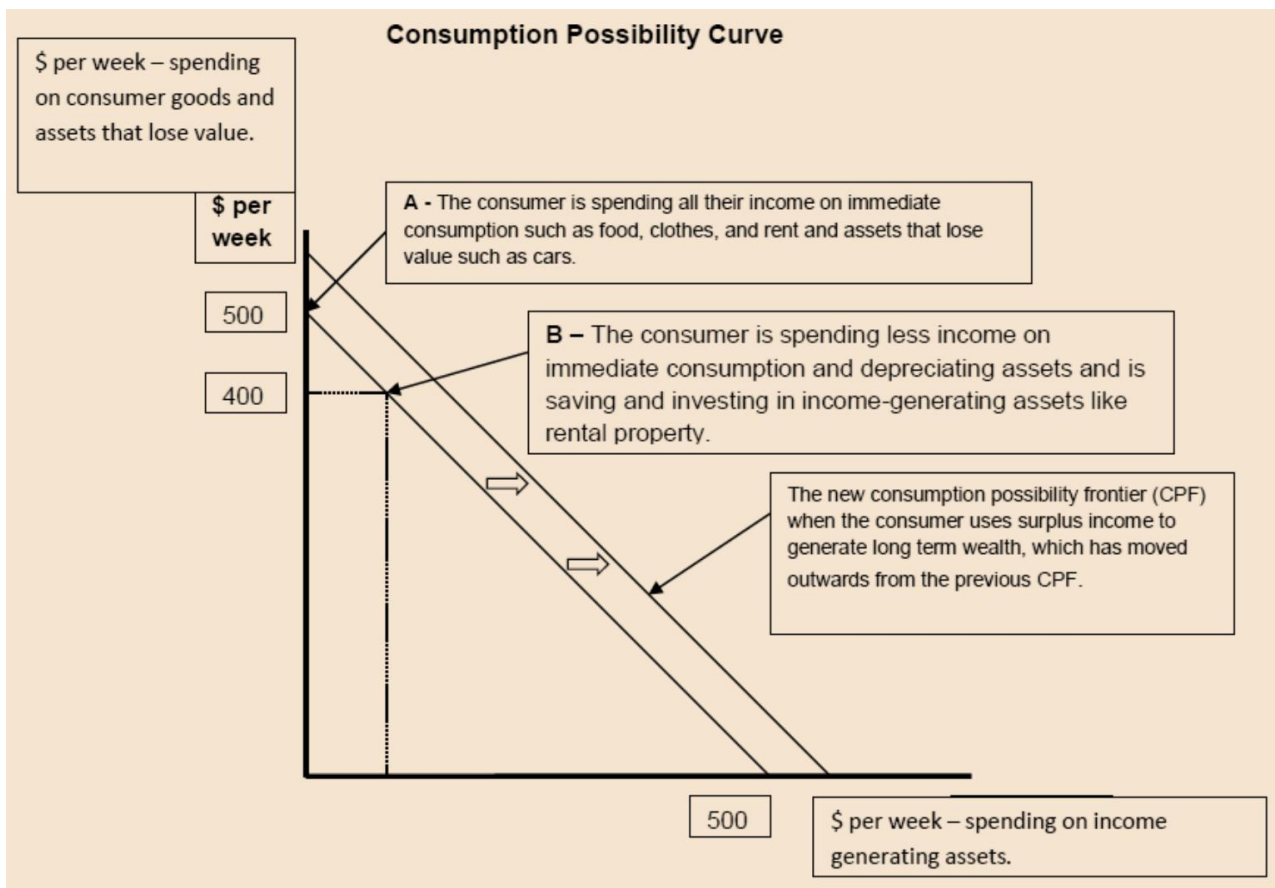
Coefficient by a decrease in the value. Overall, inequality in New Zealand has been improving in the last decade, but in the years before that it was getting worse.

Figure 2. Income Inequality in New Zealand: Gini Coefficient for the 1984–2010 HES Years



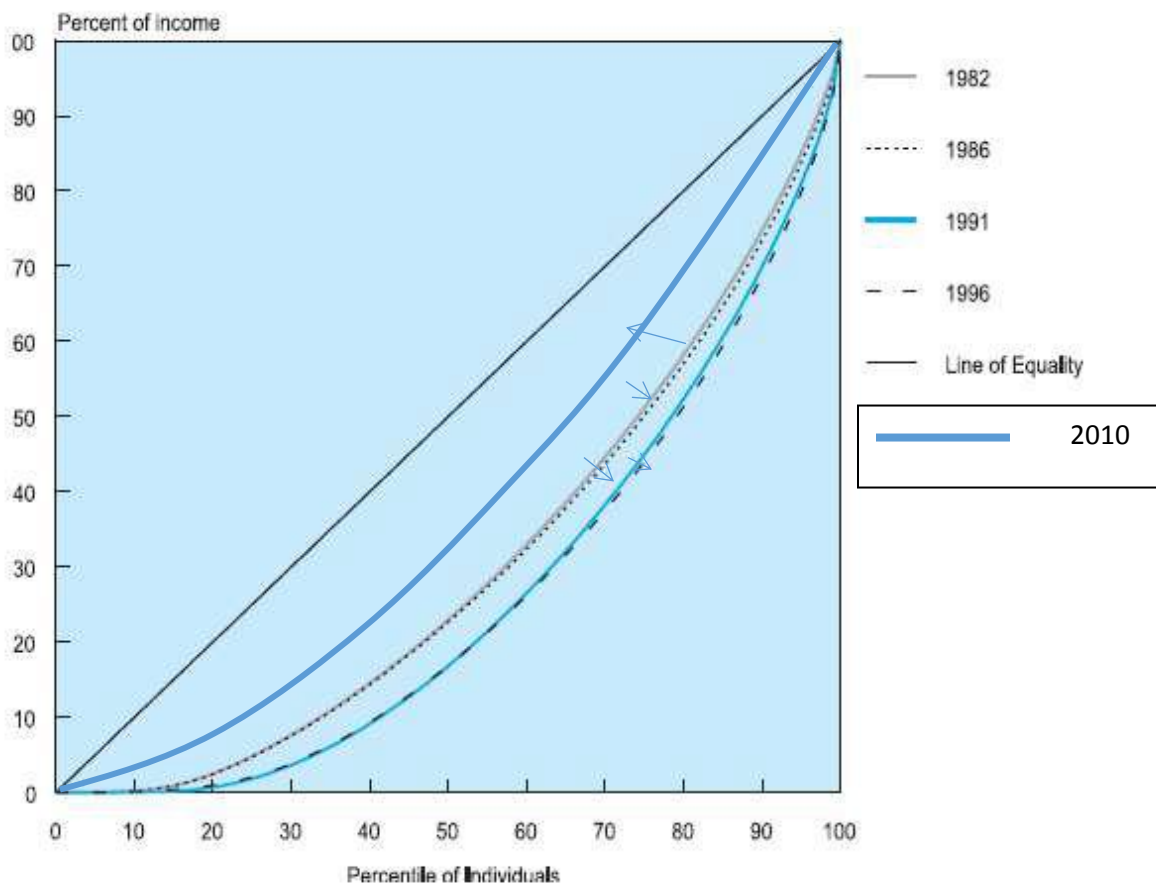
Source: Perry 2010[4] , derived from Statistics NZ's Household Economic Survey (HES) 1984–2010

How Different ethnic groups in New Zealand are affected by income Inequality/Consumption Possibility Curve explanation



The consumption possibility curve shows the link between income and wealth. If a consumer earns enough income, they can save their surplus income and invest it in income-generating assets such as shares, gold, rental properties etc. These assets will enable the consumer to generate long term wealth and invest even more income as their income increases due to these assets. Point A on the curve shows a consumer that earns only enough income to purchase the basic necessities or other goods they require for their job such as a car for travel. These assets lose value (depreciate) over time and will not be making the consumer any money. The people on low incomes in New Zealand are unable to save surplus income on income-generating assets as they have to spend all their income to survive. The people on higher incomes can save their surplus income to generate wealth and income for the future (shown by Point B on the curve). Income inequality is illustrated in this graph by the rich getting richer and the poor getting poorer. As the rich get richer and the poor get poorer, the gap between the two increases causing income inequality to increase. The Lorenz Curve for New Zealand (below) shows this trend during the 1990's to 2000, where income inequality in New Zealand increased. This is shown on the graph by a shift of the curve to the right and it bowing outwards. As the rich became richer and the poor became poorer, income inequality in New Zealand increased.

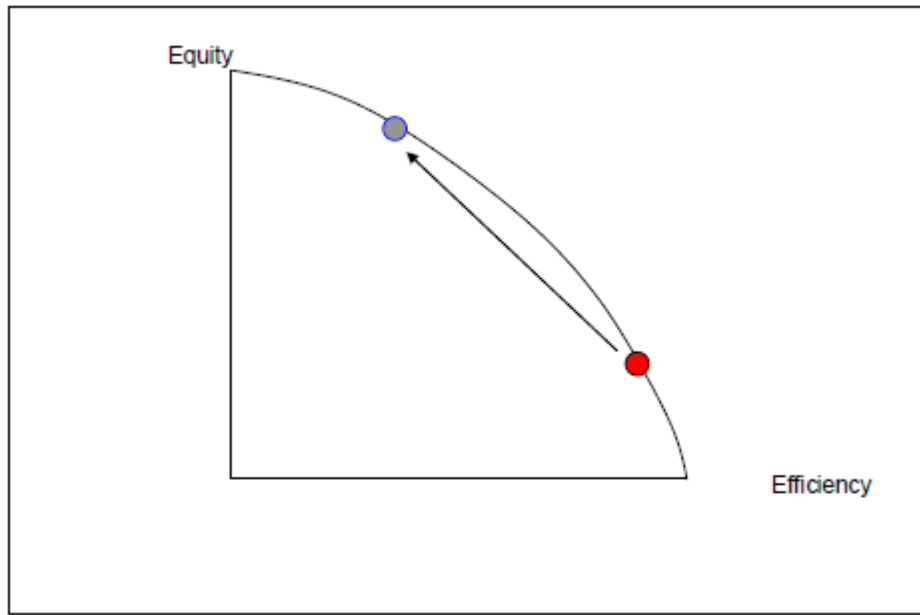
The Pasifika, Asian, Maori and MELAA ethnic groups in New Zealand receive the lowest average weekly incomes. This means, like Point A, they will most likely have to spend most all of their income just to survive. They will be unable to invest surplus income in income-generating assets, and without outside help will be stuck in the poverty cycle for the rest of their lives. The European and Other ethnic groups in New Zealand receive the highest average weekly income. This means, like Point B, they will be able to invest their surplus income in long-term, income-generating assets. They will be able to increase their income further and further as they invest more and more due to increases in their surplus income. They will be well off and have their futures secured, whereas the other ethnic groups, as described above, will be stuck in the poverty cycle and will be unable to increase their incomes to secure their futures. Income inequality causes the low income ethnic groups to stay on low incomes as they cannot save and invest surplus income. The ethnic groups on higher incomes can save and invest for an increase in their income in the future. As these ethnic groups become richer the gap between rich and poor increase, and the rich receive even more of the national income. This will increase income inequality further and push the Lorenz Curve out to the right.



Positive and Negative Social impacts of Inequality/Poverty in New Zealand

Inequality has both positive and negative impacts on a society. Income inequality causes people to want to work harder to reach a job through which they can receive a higher income. This will result in more savings and consumption. More savings will cause more investment and more economic growth. More consumption will cause an increase in demand for goods so an increase in demand for workers – more jobs will be created. This will overall increase the standard of living in New Zealand as more people will have jobs and be able to support their families. The government will save money as well, because they don't have to pay out as much in benefits. However, if high incomes are taxed too much, people will not want to work hard to reach that income level as they could live happily on a lower income. This will result in less savings, causing less investment and less economic growth, so the standard of living decreases. Less consumption also results, causing workers to be laid off as demand for the goods has decreased. If our taxes in New Zealand became too steeply progressive, people will not strive to work hard and the consequences above will result. The low income earners that are laid off, will be unable to support their families at all, and may have to give their children away to a child care service. The equity/efficiency trade-off graph supports this conclusion. It shows that as a society/economy becomes more equitable (fair) and people receive close to the same incomes, and pay almost the same amount of tax, the economy will not be able to grow and the overall standard of living in that society will drop. Businesses will not prosper and jobs will be lost as the society attempts to become fair. If the society is inequitable, though, the economy will be able to grow, as outlined above, and jobs will be created and businesses will prosper.

EQUITY AND EFFICIENCY TRADE-OFF



Another positive impact of income inequality is that some of the high income households donate money to charities and public assets such as libraries. These charities can use the donations to help the low income households to be

able to buy the basic necessities and also provide free training so the adults can find higher paying jobs that require a qualification. In New Zealand this would allow the low income households, like Pasifika and Asian, to boost their household income and be able to begin to save surplus income. As shown on the consumption possibility curve, this would allow them to invest in income-generating assets and boost their income even more. This will lead to them breaking out of the poverty cycle and living on a healthy, high income. The public assets will be able to remain free for all people if donations are high. This will allow the low income households to use these assets as they don't have to pay for them.

A negative impact of income inequality is poverty. As some people receive a lot less income than others, these people are unable to afford the basic necessities and struggle to fully support their families. In New Zealand, poverty causes people to live in damp, mouldy homes that cause sickness and overcrowding spreads the sickness quickly between family members. As they have little money, the households will be unable to afford adequate medical care and the situation will get worse until they have to be admitted to hospital with a disease that could have been prevented. A lack of good, quality food will result in the children being unable to concentrate in school and will consequently receive a bad education. This will cause them to have to work in a low-paying job as they are unable to get the qualifications they need for higher-paying jobs.

Another negative impact of income inequality is resentment between the low income households and the high income households. The low income households envy the high income households because they have a substantial income that they can support their families with. This resentment and envy can lead to crime and domestic violence, which the government will have to pay money to sort out. The crime could involve family members stealing to try and get enough money to support their families. Domestic violence could break out as one member of the household may want to spend extra income on alcohol. But other members want to use the

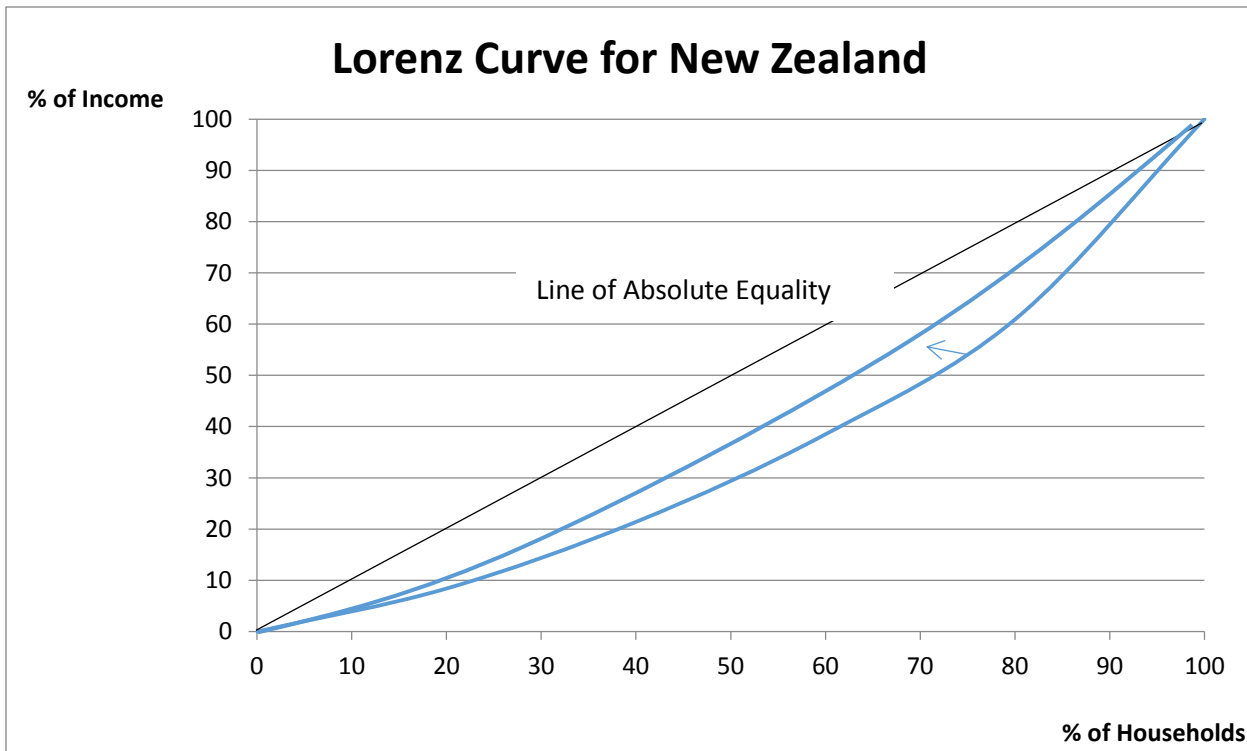
money for healthcare or savings. Violence could erupt as people get frustrated and angry with each other and argue.

How inequity causes inequality in New Zealand

Inequity within New Zealand, as children are born into poor families, will lead to and cause inequality. As these children are born in poor families, they will be unable to receive adequate nutrition, medical care and housing. This will lead to the children missing school because they are sick, and not being able to concentrate in the classroom. These children will therefore receive a bad education and little or no qualifications. This will lead to them not being able to get a good secure job in the future and they will be unable to support their families in the future. As children are born into an inequitable society, some will not have the same opportunities as others and will receive lower incomes in the future. So, from this we can see that inequity in a society will lead to income inequality in the future as some people receive higher incomes than others.

Government Policies to help improve New Zealand's Situation

The New Zealand government could implement a few different policies that would help to improve New Zealand's situation. Working for families gives extra money to families with working caregivers. This will help to boost that family's income and they can purchase good, quality food so that their children will be able to concentrate at school and receive a good education. This will lead to a good job in the future for those children and the opportunity for a high paying job, and the ability to full support their family. The extra income may be used by the family to save and invest in income generating assets, so that they can have a greater household income and thrive and prosper. The benefits will help to decrease income inequality in New Zealand as the poorer people are receiving more income and therefore have a higher share of the national income. This will help these people to pull themselves out of the poverty cycle and live a happy, healthy, full life. Due to a decrease in income equality, the Lorenz Curve for New Zealand will shift left and society becomes more equal (as shown by the Lorenz Curve below). Equity within New Zealand will increase as more people are receiving closer to the same income. But, efficiency will decrease. This is because people will not want to work harder to get themselves a higher paying job as they would move out of the benefit bracket. Businesses will not be able to prosper as their lower paid workers are less motivated to work harder to get promotions and a higher wage. This will cause productivity to decrease, decreasing the businesses output, and therefore profit. This will lead to the business having to cut production and further loss of profits. These consequences may lead to the business laying people off, and the eventual shutting down of the business.



Another policy the government could use to combat inequality and poverty is the progressive tax system. Under this tax system, the higher your income level, the higher percentage of tax you pay, up to a maximum percentage. This makes poor households relatively richer as they pay less of their income in tax and income is distributed in a more equitable way. This will decrease income inequality in New Zealand as people will have a closer to the same amount of disposable household income as each other. With a little extra income, the poorer households can afford to purchase medical care, good quality food or choose to invest the extra money in income-generating assets. This will decrease income inequality in New Zealand and shift the Lorenz Curve to the left (as shown by the Lorenz Curve above). This policy will make New Zealand more equitable as the population has closer to the same disposable income. Efficiency will decrease as workers are less motivated to work hard for a promotion and earn a higher income. This is because they don't want to move their income level into the next tax bracket, as they will have to pay a higher tax on that income.

The government could use the minimum wage to ensure that all workers receive at least a certain income level. This will increase the household's income level and produce a more equal and equitable society. These people will be able to buy extra food, purchase medical care or invest the income for long-term income generation. However, this will cause the businesses cost of production to increase as they are paying their workers a higher wage. Productivity will drop and so will the businesses profits, causing them to have to lay-off a few workers.

Subsidies could be used by the government to provide financial aid for households who cannot afford services or products they need. This could include prescription medicine subsidies to help households afford medicine they need but couldn't afford on their own. This will help to increase the overall level of health in New Zealand, and children will be able to attend school more as they are healthier, so will be able to get a good education. This will lead to a good job in the future for these children and a good income to help them support their families.