

Example

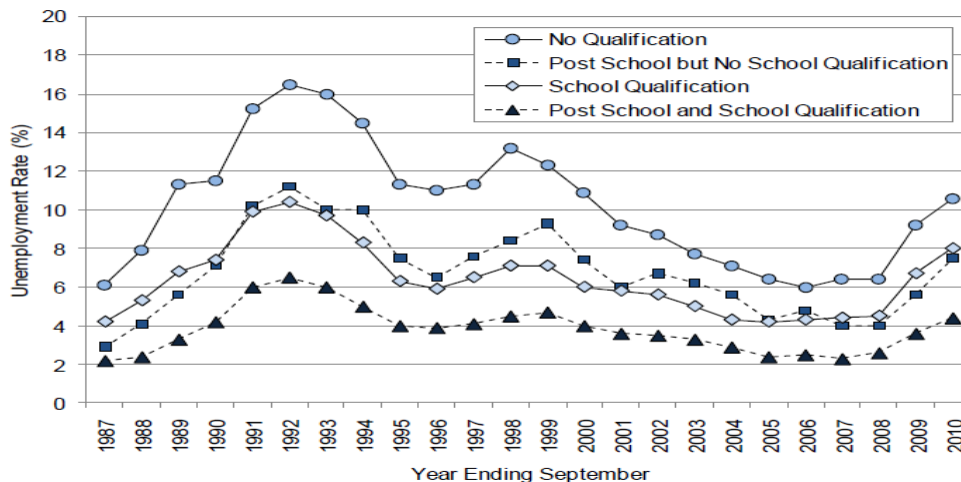
Inequality is the unequal distribution of household or individual income across the various participants in an economy. Income inequality is often presented as the percentage of income to a percentage of population. For example, a statistic may indicate that 70% of a country's income is controlled by 20% of that country's residents.

It is often associated with the idea of income "fairness". It is generally considered "unfair" if the rich have a disproportionately larger portion of a country's income compared to their population.

Inequity is lack of equity (fairness).

Poverty is defined as the state of being poor; lack of the means of providing material needs or comforts. Poverty is caused by a variety of different factors. Low income or unemployed households are likely to live in poverty.

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



Source: Statistics New Zealand Household Labour Force Survey

This graph shows the annual unemployment rates in New Zealand by qualification. This graph shows a trend – the greater your level of education the less likely you are to be unemployed. The graph shows that people that have no education are far less likely to be employed than people that do have any level of education. Low skilled workers are high in supply and therefore firms can hire workers easily at a low wage. This means that people with little or no qualifications (low skilled) are likely to earn a low income and may not be able to afford proper housing and food therefore they may live in poverty. Therefore the less education you have, the more likely you are to live in poverty.

Example

To understand the causes of poverty one must look at what causes people to miss out on education and qualifications.

1 in 5 children in New Zealand live in poverty. Children that live in poverty tend to live in damp, cramped and cold conditions. This means that they are more likely to get sick and if they do get sick it can spread easier. As shown in the child poverty document children living in poverty are at a higher risk of respiratory diseases. Because people on a low income must first satisfy their basic needs they may not have enough money to see a doctor which means it takes them longer to recover. This means children living in poverty tend to take more days away from school and may find it harder to focus in school if they are ill causing them to fall behind on their education. This contributes to inequality as these children are more likely to miss out on gaining a proper education at no fault of their own. Children that live in poverty may not meet their daily energy/nutrition needs due to their parents not being able to afford adequate food which causes lack of energy and concentration. As shown in the child poverty document children living in poverty frequently come to school with no breakfast or lunch which causes them to perform poorly at school which leads to lack of education. Children living in poverty also have less access to educational resources such as computers, books and tutors. This means that it is harder for children living in poverty to achieve at school than someone that does have access to these resources. This means they are more likely to miss out on gaining proper education and only be able to get low paying jobs in the future. This shows inequality as children living in poverty are less likely to gain proper education than children living in wealthier households. Children living in poverty may also have less supportive parents as their parents do not understand the value of education. This means these children may be less motivated to succeed at school as they also find it difficult to understand the value of education.

Therefore children living in poverty are more likely to be unsuccessful at school and miss out on qualifications which leads to them also earning a low income and living in poverty. This is called the poverty cycle and causes generations of people to live in poverty. This shows inequity as children living in poverty has a greater chance of earning a low income in the future so it is unfair.

Impacts of inequality.

The positive social impacts of income inequality on New Zealand is the incentive this creates to show innovation, invention, entrepreneurship, and more efficient use of resources. Investment finance becomes available due to the savings or surplus income from the top decile households. Some of these households also donate to charities and public assets. There is also the economic argument that some income inequality is necessary for efficiency in a free market economy. The trade-off for all these government provisions may be disincentives for people to work if they are receiving substantial transfer payments (benefits), to take risks (entrepreneurs), an increase in compliance costs, no clear price signals for resource allocation, and disequilibrium in the labour market.

The negative impacts of income inequality are poverty and lack of opportunities like tertiary education. There can be a feeling of political isolation because low income earners don't have the income to create a loud voice in the media. When a country has a large discrepancy in household income distribution we see some households (top 20 to 40 percent deciles) with substantial assets and wealth and others (lowest 20 to 40 percent deciles) with few assets and no wealth. This can lead to anti-social behaviour like crime and domestic violence. Ill health, low self esteem, and a build up of resentment as the "have-nots" see the "haves wealth. A poverty cycle can develop where low incomes leads to poor health and lack of education and therefore poor employment opportunities which means low paying jobs.

Median Incomes of different Ethnic groups for all people (\$)

Year	European (wk)	European (yr)	Māori (wk)	Māori (yr)	Pacific peoples (wk)	Pacific peoples (yr)	Other Ethnic groups (wk)	Other Ethnic groups (yr)
1998	320.00	16640.00	286.00	14872.00	282.00	14664.00	191.00	9932.00
1999	338.00	17576.00	298.00	15496.00	280.00	14560.00	200.00	10400.00
2000	341.00	17732.00	330.00	17160.00	332.00	17264.00	206.00	10712.00
2001	380.00	19760.00	325.00	16900.00	300.00	15600.00	225.00	11700.00
2002	420.00	21840.00	360.00	18720.00	319.00	16588.00	225.00	11700.00
2003	439.00	22828.00	373.00	19396.00	360.00	18720.00	222.00	11544.00
2004	458.00	23816.00	395.00	20540.00	360.00	18720.00	258.00	13416.00
2005	493.00	25636.00	408.00	21216.00	400.00	20800.00	269.00	13988.00
2006	518.00	26936.00	440.00	22880.00	410.00	21320.00	345.00	17940.00
2007	564.00	29328.00	473.00	24596.00	450.00	23400.00	350.00	18200.00
2008	575.00	29900.00	499.00	25948.00	459.00	23868.00	378.00	19656.00

Example

This table shows how different groups are affected by income inequality. Europeans consistently earn more than any other group in New Zealand year after year. This is because Europeans are less likely to live in poverty than Maoris and Pacific islanders. As stated above and seen in the child poverty documentary, children that live in poverty are more likely to live in poverty themselves. This 'poverty cycle' may be the reason that Europeans consistently earn more than other ethnic groups every year.

According to the statistics New Zealand census data, the crime rates among Maoris and Pacific Islanders are much higher compared to Europeans. The Offender apprehensions rates per 100,000 ethnic population among Maoris is 14752, among Pacific islanders is 8280 and among Europeans is much lower at 3785. This is due to a greater amount of Maoris and Pacific Islanders living in poverty which can lead to anti-social behaviour like crime and domestic violence as stated above.

Example

Causes of income inequality

Culture and values can influence the decisions some families make regarding education or the accumulation of material things, in some cultures the level of education is very important and affects your social status.

Access to opportunities can be affected by regional differences in resource endowment, support for education is lacking or isn't a high priority for some families, this generally occurs in low income families as the parent may not be educated and may not realise the importance of education, this could be said to be inequitable as you don't choose your families so is unfair on children brought into families that don't value things like education, with lower education this means they are more likely to get a low income job when older therefore creating greater gap between rich and poor, therefore contributing to inequality.

Unequal opportunities can also include gender income differences—the gender statistics consistently show that women are paid less than men in each ethnic group; this shows inequity as this is not considered fair that your income is based on what sex you are, more difference between the pay of male and females will cause greater inequality as the income is distributed unfairly.

The forces of supply and demand determine what people get paid so a professional sports person or movie actor can be paid a lot more than many professional people like doctors or lawyers because they may be in higher demand and there is not many good actors therefore . This is evidence of inequity of market income. However, generally a professional will be paid more than a labourer, because they are usually more skilled which is evidence to support the fairness of income inequality.

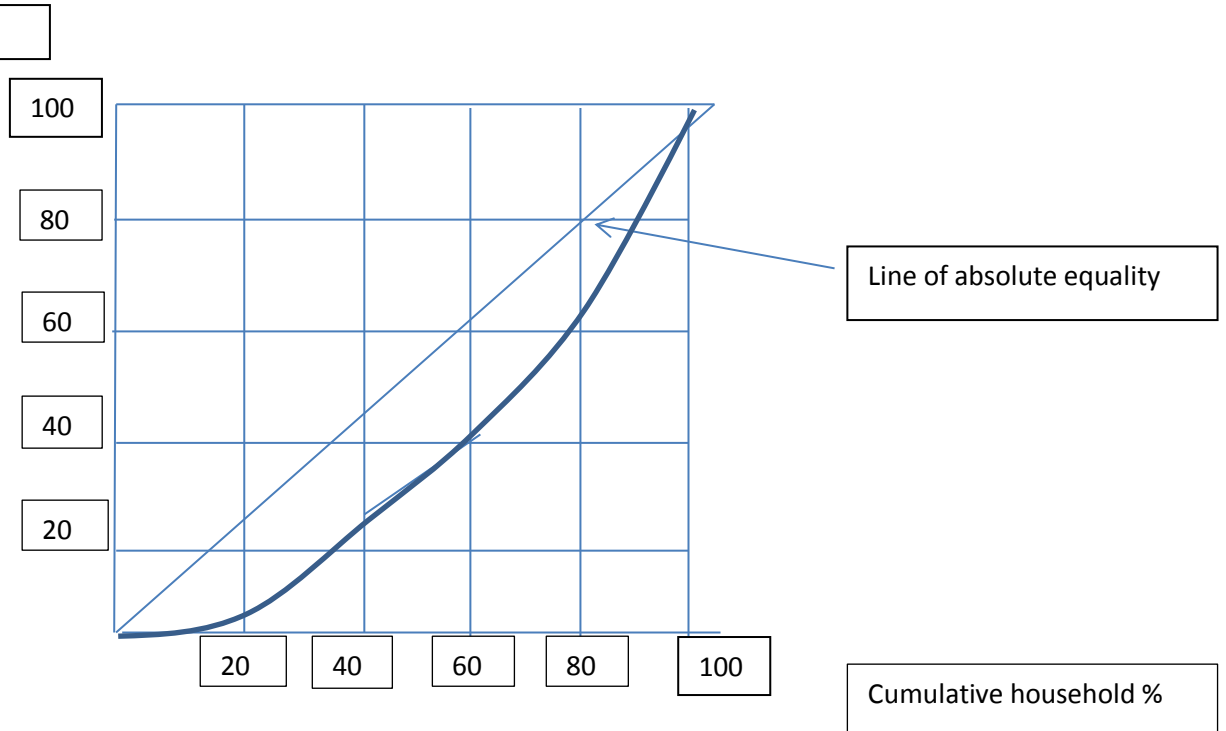
Tertiary education indicates future income potential. Generally a degree increases your earning potential as shown by wage/salary statistics, which can be argued as being equitable or fair due to the effort and cost involved in getting a tertiary education, also because higher paid jobs generally means you need to be more skilled therefore is said to be more equitable, however by having larger gap between people that have a degree and people that are low educated will contribute to inequality as there will be a greater gap between the rich and poor.

Income changing depending on the experience and age. As you get older the income usually increases due to experience or job promotions. Age income statistics provide evidence of this, which may be argued as being equitable due to work experience and longer work experience generally means you are getting more skilled and productive.

People who inherit wealth have a head start, and already have the money to set up businesses or invest in income-generating assets—this advantage may be viewed as inequitable and unfair as people are better off due to their hard work of their parents and not necessarily of their own efforts and this may be seen as inequitable as some people are not fortunate to have parents that left them assets. Inheritance contributes to inequality as small parts of the population inherit large amounts of wealth, causing the distribution of wealth to be unequal therefore causing a greater gap between rich and poor.

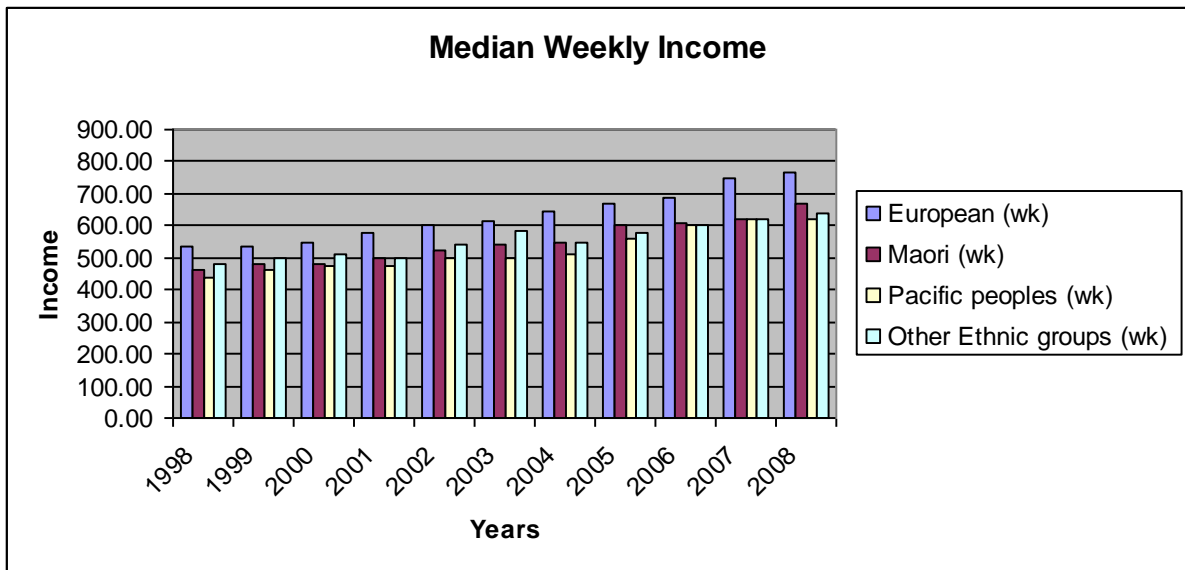
Example

Household Market Income Lorenz Curves 2010

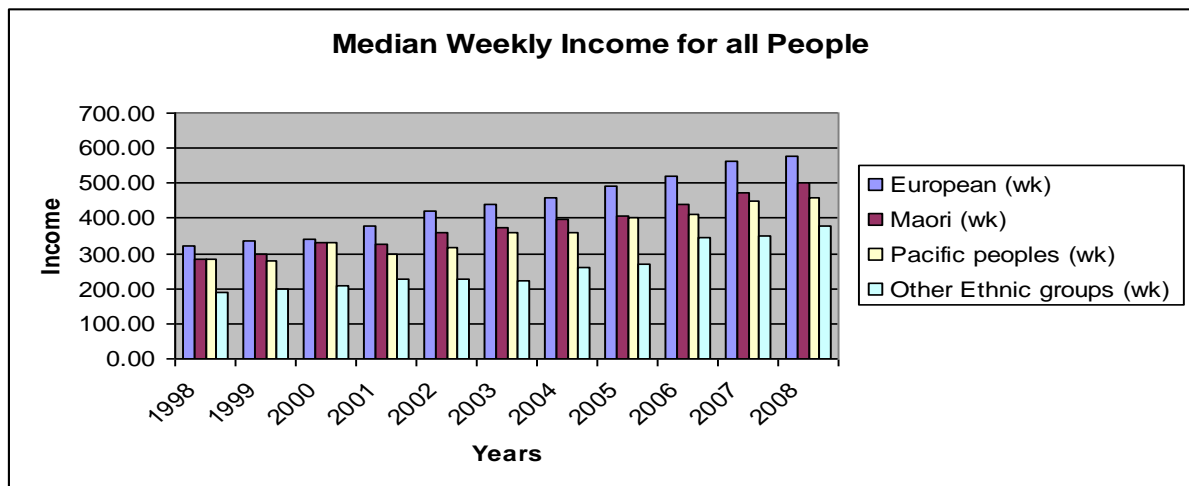


The straight line shows the line of absolute equality. This is because all households are earning the same amount of money. In reality this would be impossible unless there is absolute equality. The Lorenz curve for New Zealand gradually gets steeper. This shows that the poorest 20% owns the least percentage of the income and the richest 20% owns the greatest percentage of the income. This means there is inequality in New Zealand as everyone does not own the same percentage of the income.

Example



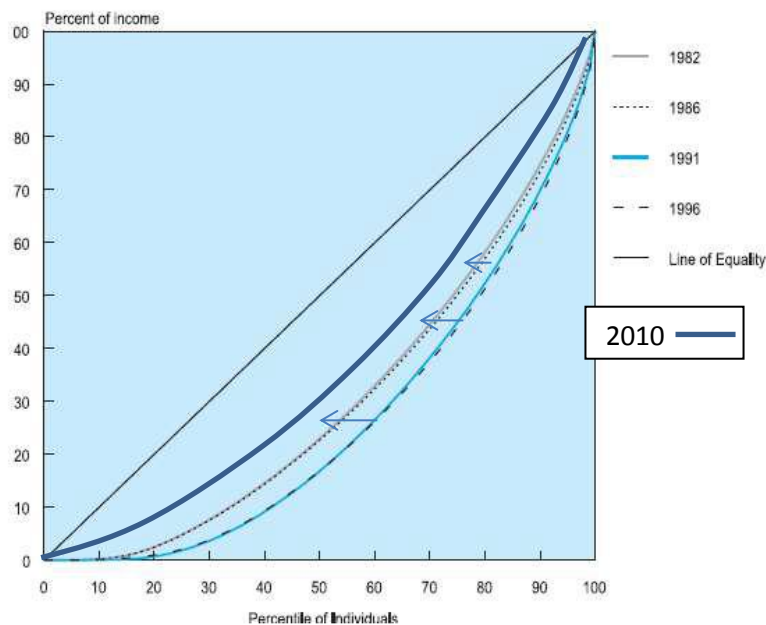
In every year European people consistently earn more than any other ethnic group in New Zealand. This could be due to Culture and values influencing the decisions some families make regarding education or the accumulation of material things. This graph shows that Pacific peoples consistently earn a lower median weekly income than any other ethnic group in New Zealand. This consistently low income could be due to the poverty cycle. Maori weekly has increased between 1998 and 2008 and is now higher than other ethnic groups. This graph shows a general trend of an increase in the median weekly income of all groups. Except for 2001 and 2004 where the other ethnic groups median income decreased.



This graph includes unemployed people in New Zealand which causes a lower median weekly income for all groups. In this graph the median weekly income figure for other ethnic groups have dropped significantly more than the rest. This suggests that many other ethnic group people are most likely unemployed. This graph also shows a general trend of an increase in the median weekly income of all groups. Except for 2001 when income for Māori and Pacific peoples decreased.

Example

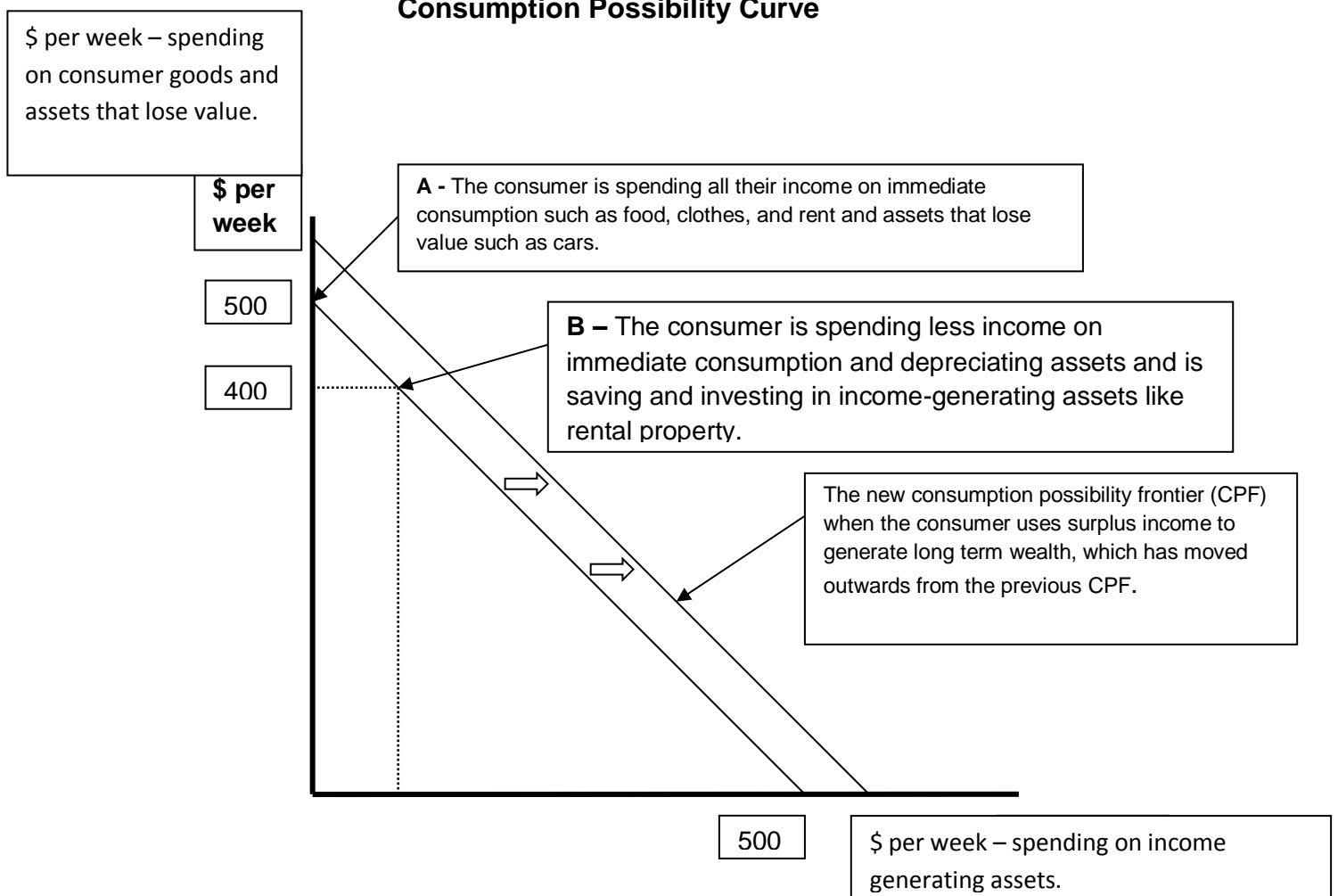
Household Market Income Lorenz Curves 1982-2010



This shows a shift inwards to the line of absolute equality when we compare 1984 to 2010. The general trend for this time period is a decrease in ratios. This tells us that the median incomes have increased against the average income figures which indicates an improvement in income inequality. The Lorenz curve has shifted closer to the line of absolute equality which means there has been a decrease in the gini coefficient. The higher the gini coefficient the more unequal society is. Therefore because the gini coefficient has decreased society has become more equal during this time period (inequality has decreased). The improvement in income inequality made from in this time period is most likely due to government actions to reduce income inequality in New Zealand. The government has introduced several policies in the past decade such as working for families which gives extra income to low to middle income earners, and there has been a reduction in the marginal tax rates (MTRs) that has benefited middle income earners. The interest write-off on student loans has enabled people to pay off their loans more quickly and therefore have more disposable income. There has been an increase in the minimum wage rate which has increased disposable income for low income earners. There was a focus on training or retraining more unemployed people and placing them in work which would have increased their disposable income and lower unemployment figures for this period which equates to more disposable income for households.

Example

Consumption Possibility Curve



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 in income-generating financial assets such as term deposits, shares, gold, and rental property. This shows the gap between people who are able to create wealth and those who either have to spend all their limited income or choose to spend it all. Consumers that earn enough income to generate long-term wealth expand their future consumption possibilities by increasing their income through income-generating assets. This creates more inequality as households that are controlling the majority of the wealth are able to further increase their incomes by investing in income generating assets. This increases the gap between the rich and the poor therefore increasing inequality.

Example

The government uses a variety of redistribution tools to attempt to decrease income inequality.

Minimum wage insures a fair wage for workers and increases incomes. This increases the income people on the minimum wage which gives them a greater share of the wealth therefore decreasing income inequality.

TAX: progressive tax. Marginal rate of tax increases as income increases. This means that people that are earning a higher income and have a greater share of the wealth has to pay more tax therefore decreasing their share of the wealth. This increases income inequality as it means people are receiving a more equal share of the wealth. Because the rich are being taxed more the government has more revenue which they can redistribute in the form of transfer payments, subsidies and public provisions. Transfer payments such as unemployment benefit and child benefit are welfare benefits to those in need or on a low income. This increases the income of low income earners which gives them a greater share of the wealth therefore decreasing income inequality. If low income earners receive more money from transfer payments, they can afford better housing and better quality food. As stated before and shown in the child poverty document, if children are receiving proper nutrition they can concentrate during school which increases their chance of gaining tertiary education. Also, with better housing children are less likely to get sick which enables them to do better at school as they can go to school more frequently. This increases the child's chance of gaining tertiary education which increases their future earning potential. Therefore transfer payments gives low income earners a greater portion of the wealth and also helps to break the poverty cycle which leads to a smaller level of inequality. Subsidies are financial aid provided to those who have low or no income – housing, education. This increases equity as everyone has the chance to receive an education. As shown in the document on child poverty, children that are made to live in cold, damp and cramped conditions are more likely to get sick. If a child is ill it means they cannot perform as well in school and may take more days off. Improving state housing means that children living in poverty have a lower chance of getting ill which enables them to do better at school and go to school more frequently. This helps to break the poverty cycle as more children living in poverty are doing well in school which enables them to receive tertiary education and a well-paying job. : providing some goods and services for all, especially those in need such as public hospitals and schools. This increases equity as it gives everyone a chance to receive an education and it provides health care to those that can't afford it. As shown in the child poverty document, children that succumb to illness are likely to underperform at school. Public health care means that children who are made to live in poverty can be treated even if their parents can't afford it. This means that these children get sick less often and for a shortened period of time. Therefore they can achieve more at school and go to school more frequently. This helps to break the poverty cycle as more children living in poverty are doing well in school which gives them a better chance of receiving tertiary education therefore increasing their future earning potential. Public provisions provide some goods and services

Example

for all, especially those in need such as public hospitals and schools. This increases equity as it gives everyone a chance to receive an education and it provides health care to those that can't afford it. As shown in the child poverty document, children that succumb to illness are likely to underperform at school. Public health care means that children who are made to live in poverty can be treated even if their parents can't afford it. This means that these children get sick less often and for a shortened period of time. Therefore they can achieve more at school and go to school more frequently. This helps to break the poverty cycle as more children living in poverty are doing well in school which gives them a better chance of receiving tertiary education therefore increasing their future earning potential.

Therefore by redistributing wealth from the high income earners to low income earners leads to a more fair society and lessens the gap between the rich and the poor therefore decreasing income inequality.