

# Inequality: Is privilege the problem?

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# Overview

- The Treasury's commitment to increasing equity
- Focus on poverty
- Should this frame be enlarged to include affluence and privilege?

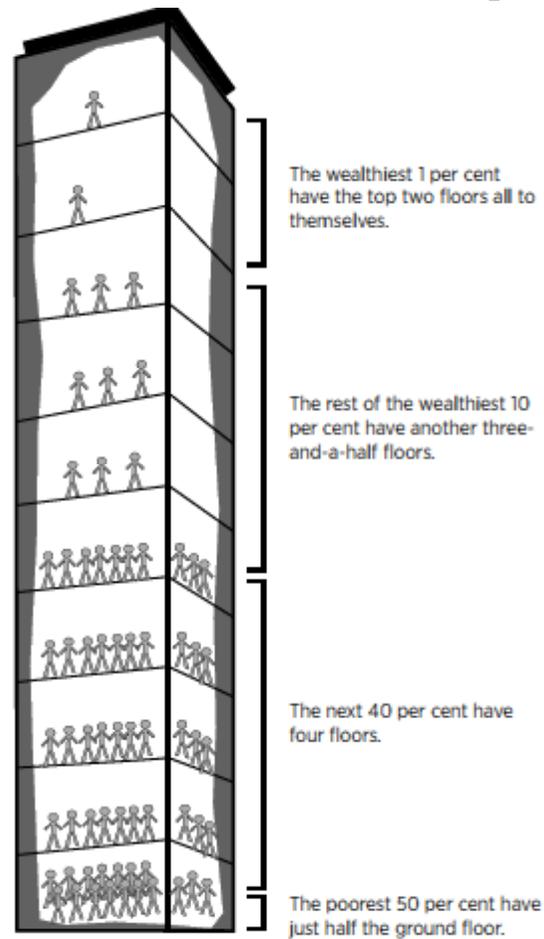


# Context: Income Inequality

*Disposable income inequality has widened materially since the 1980s, albeit from a lower level than in other advanced low-tax countries, and remains high. This almost entirely reflects a sharp increase in market income inequality between the mid-1980s and mid-1990s, only weakly countered by the tax and benefit system; since then, income inequality has stabilised.*

*Within New Zealand, sizable income gaps for Maori and Pacific minorities have not improved (OECD 2013).*

# Context: Wealth Inequality



Source: Data from Statistics New Zealand; concept drawn from Toby Morris, "The Pencilword: Inequality Tower", *The Wireless*, 24 April 2015, <http://thewireless.co.nz/articles/the-pencilword-inequality-tower> (accessed 5 October 2015).

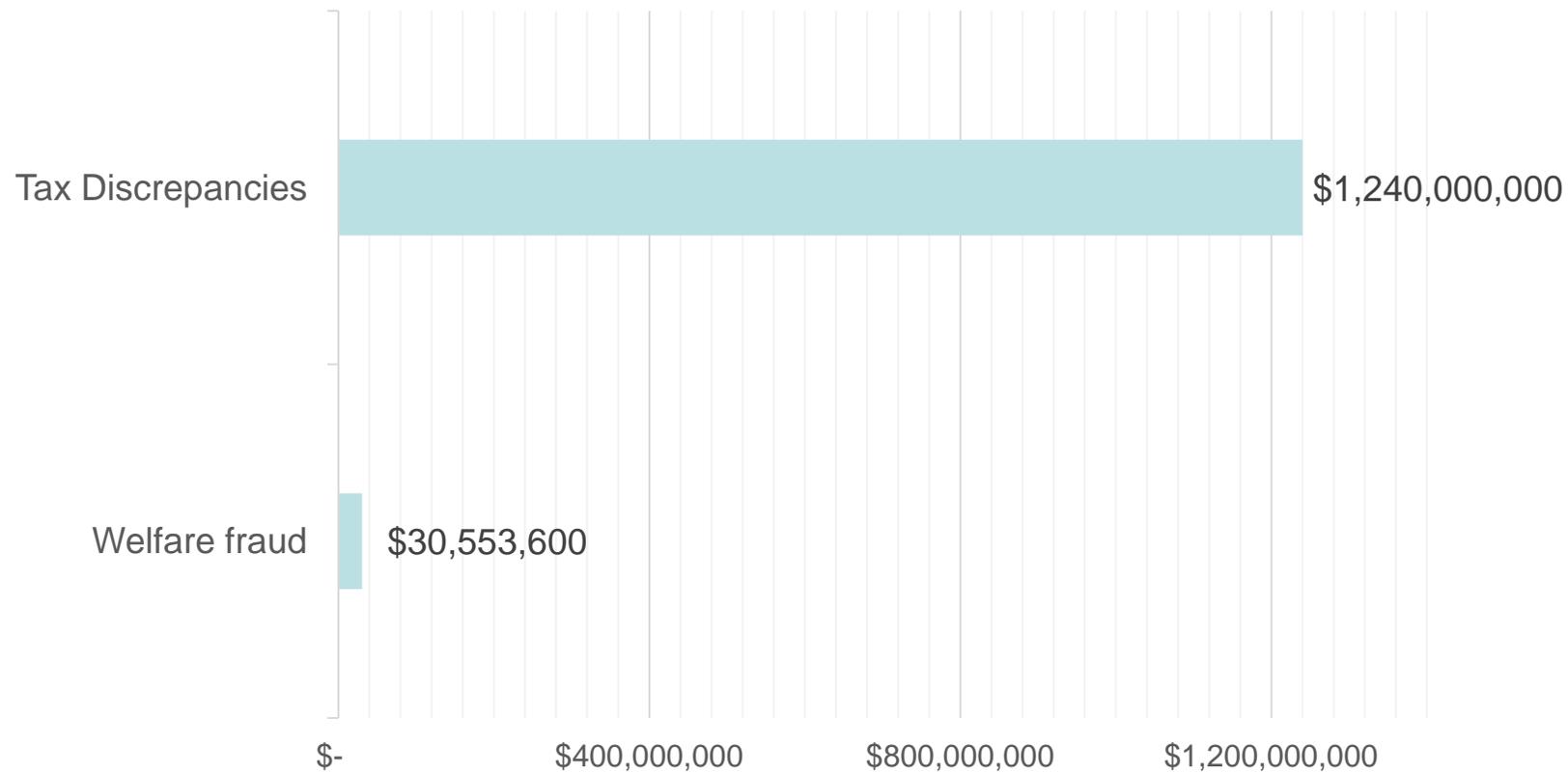
# Agenda

- The power balance between capital and labour
- The residential choices of the wealthy
- Wealth and political donations
- The role of the tax system in regards to wealth

# The Power Balance

- Different treatments of different ‘types’ of people
  - Tax evaders and welfare fraudsters
  - Debtors to the crown
  - *Social Security (Fraud Measures and Debt Recovery) Amendment Act 2014*

# The Size of the Issue (NZ\$) 2014



# White-Collar Crime in NZ

Mitigating Factors	No.	%
Reference to the good character of the offender	74	56%
Reference to reputation damage/loss of community standing/shame	34	26%
Reparation made	All = 10 Some = 27	All = 8% Some = 20%
<b>Aggravating Factors</b>		
Vulnerable victim(s)	58	44%
Systematic offending	92	70%
Breach of trust	82	62%

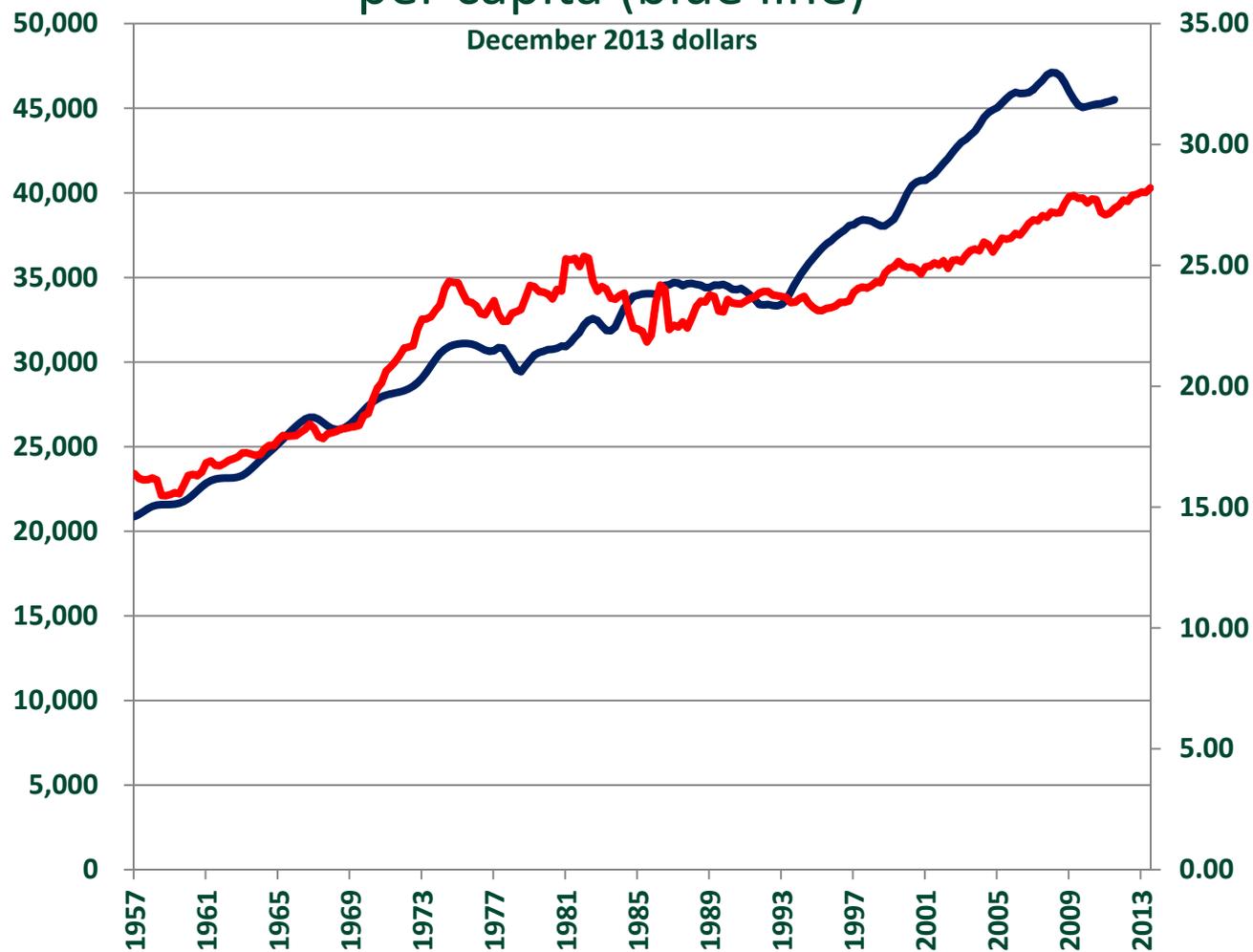
**36%**

- *You are, as I have mentioned, a person of good character. There are many references here. All of them speak of your trustworthiness, high moral character and integrity. ... you have, and I think you acknowledge, slipped up extremely badly here. This was out of character.*
- *It is of course no pleasure to have to sentence people such as yourselves who have for the greater part of your lives lived a useful and relatively blameless lifestyle, and made a contribution to the community. My job today is to sentence you to the least restrictive outcome that can appropriately be applied in the terms of the law.*

- *You were clearly someone who assisted others in the community, including your family, and you are well spoken of in the references. Your fall, as with others who fly high, has been hard. You have not only the stigma of conviction and the damage to a promising career having achieved a Chief Executive's role ...while still relatively young but have suffered a substantial diminishment in income and in capital as a result of this offending.*
- *The convictions and all matters surrounding them have already inflicted a severe punishment. She has suffered career and social descent and disgrace. And the pain of all that is something I recognise, respect and take into account.*
- *To my mind the major punishment which you will suffer as a result of this arises from the fact of conviction. The convictions in themselves represent a major fall from grace and as I have already said, a major loss of reputation.*

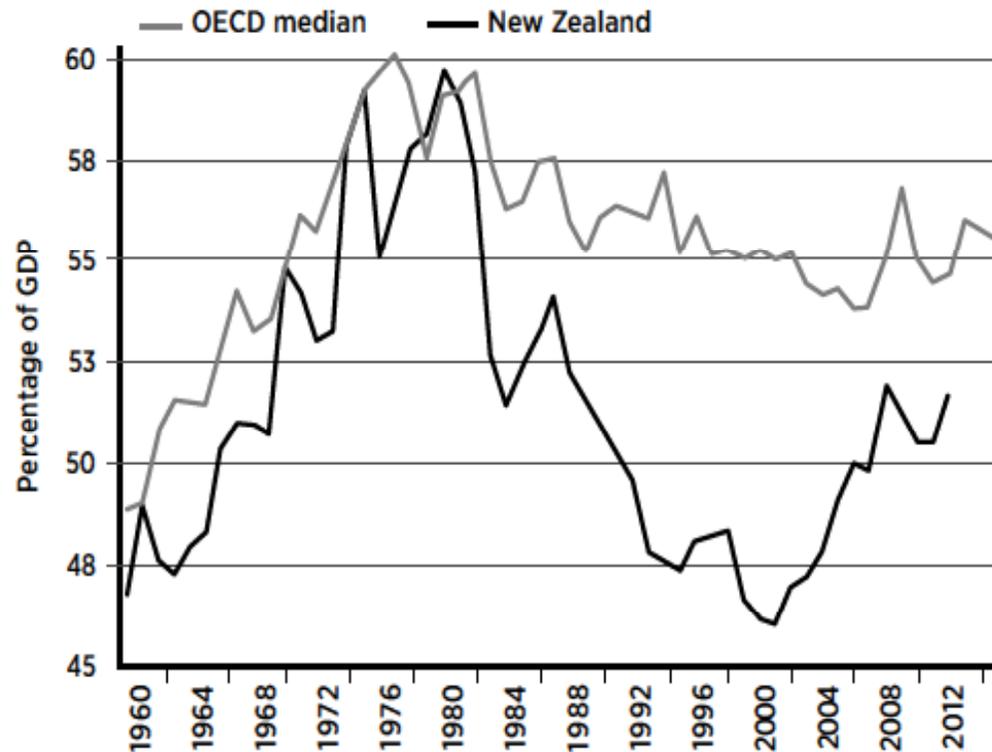
# Economic power

Real average wage (red line) and GDP per capita (blue line)  
December 2013 dollars



# Economic power

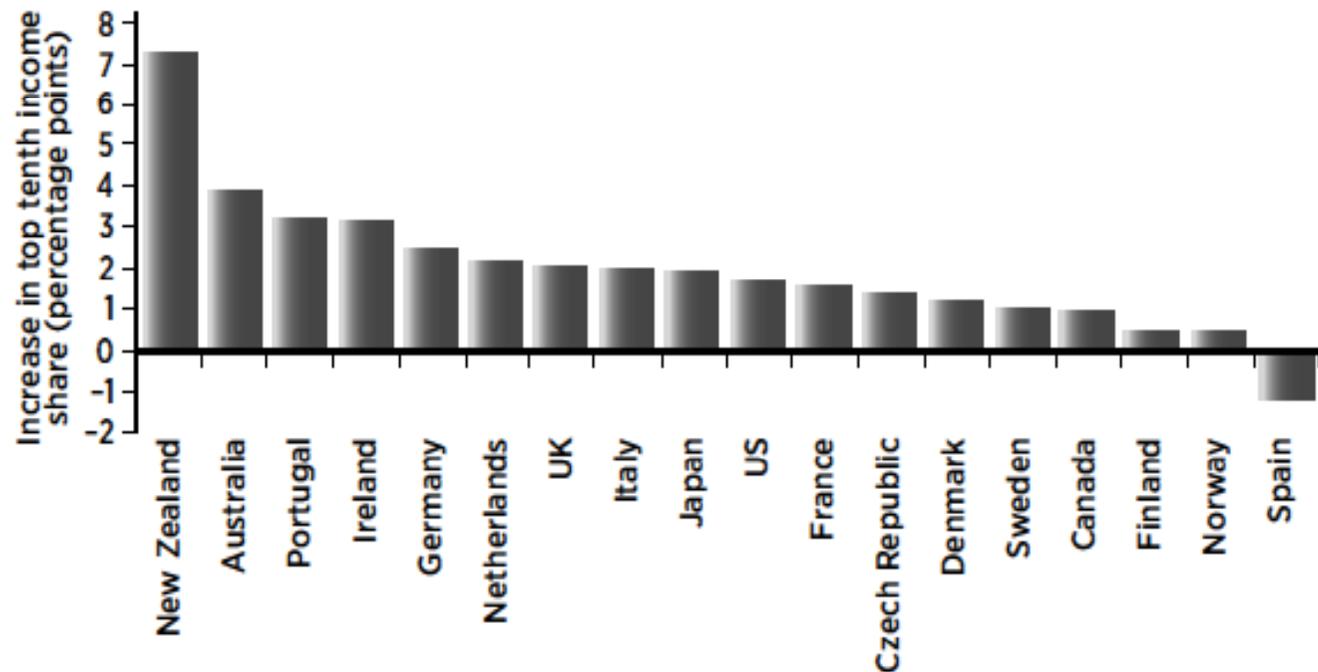
Figure 2.7 Share of income going to wages and salaries, New Zealand versus OECD average (median)



Source: Bill Rosenberg, 'Wages and Inequality', *Policy Quarterly*, 11, 1 (February 2015), p.67, Figure 7a, <http://igps.victoria.ac.nz/publications/files/aa8a6fca535.pdf> (accessed 1 October 2015).

# Economic power

**Figure 2.6** Increase in top tenth income shares explained by reduced union membership



Source: Florence Jaumotte and Carolina Osorio Buitron, 'Inequality and Labor Market Institutions', IMF Staff Discussion Note, SDN/15/14, July 2015, p.26, Figure 7b, [www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf](http://www.imf.org/external/pubs/ft/sdn/2015/sdn1514.pdf) (accessed 1 October 2015).

# Residential location choices

- Urban geography has ‘concerned itself with the poor and deprived areas’
- Yet choices of the affluent are key
- This ‘reduces opportunities to the relatively deprived’.
- We ‘have failed to recognise the intimate connections between the geography of the rich and the geography of poor’.

# Wealth and Political Donations

- 2011-14: donations of over \$30,000 totalled \$12 million
- Parties' ad spending in the 2014 election: \$8.9 million
- Significant in this context
- Questions over influence

# The Role of the Tax System

*Policy makers are increasingly attuned to social equity and welfare. Though New Zealand ranks highly on many dimensions of well-being, some show a wide dispersion. The redistributive power of the tax and transfer system is around the OECD average (OECD 2013). Improving education, health, employment and social outcomes for the large Maori and Pacific minorities is needed to reduce social disparities (OECD 2013).*

# Capital Gains Taxes

- *...the lack of a capital gains tax in New Zealand exacerbates inequality (by reducing the redistributive power of taxation) (OECD, 2013).*
- *Implement a capital gains tax and boost environmental and property or land taxes to facilitate a more efficient and equitable tax structure (OECD, 2013).*
- OECD suggest that recurrent taxes on immovable property are the tax category least harmful to long-term growth, followed by other property taxes

# Working for Families

- *A costly in-work tax expenditure that could be much more effectively targeted on the working poor...* (OECD 2013)
- *In New Zealand, the system of taxes and transfers reduces inequality less than in most OECD countries* (OECD 2013)

# Other options? Inheritance / Gift Taxes

- *...other developed countries, which typically tax one or all of wealth, capital gains, gifts and inheritances* (Rashbrooke, 2015)
- Estate taxes repealed in 1992
- Gifts no longer attract gift duty (from 2011)

# To Conclude

*We can understand poverty only by  
understanding affluence*