

What inequality is doing to Aotearoa and how we can move to a more equalitarian society that embraces social justice

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“...providing real access to justice in Aotearoa”

- Notions of justice: legal v economic
- Imbalances of wealth \Leftrightarrow imbalances of power
- Can one be redressed without tackling the other?
- What exactly does “social justice” mean?

Social justice: my version

- Collective social contract that
 - satisfies ethical/philosophical tests
 - provides expectations about the minimum entitlements of citizens
- Institutions that are
 - clearly committed to the social contract
 - effectively held to account for delivering its requirements
- Some maximum limit on accumulation of power and wealth by individuals/groups within society
 - Tax or other measures to prevent undue concentration at the top of the distribution of income and wealth

How much inequality is good?

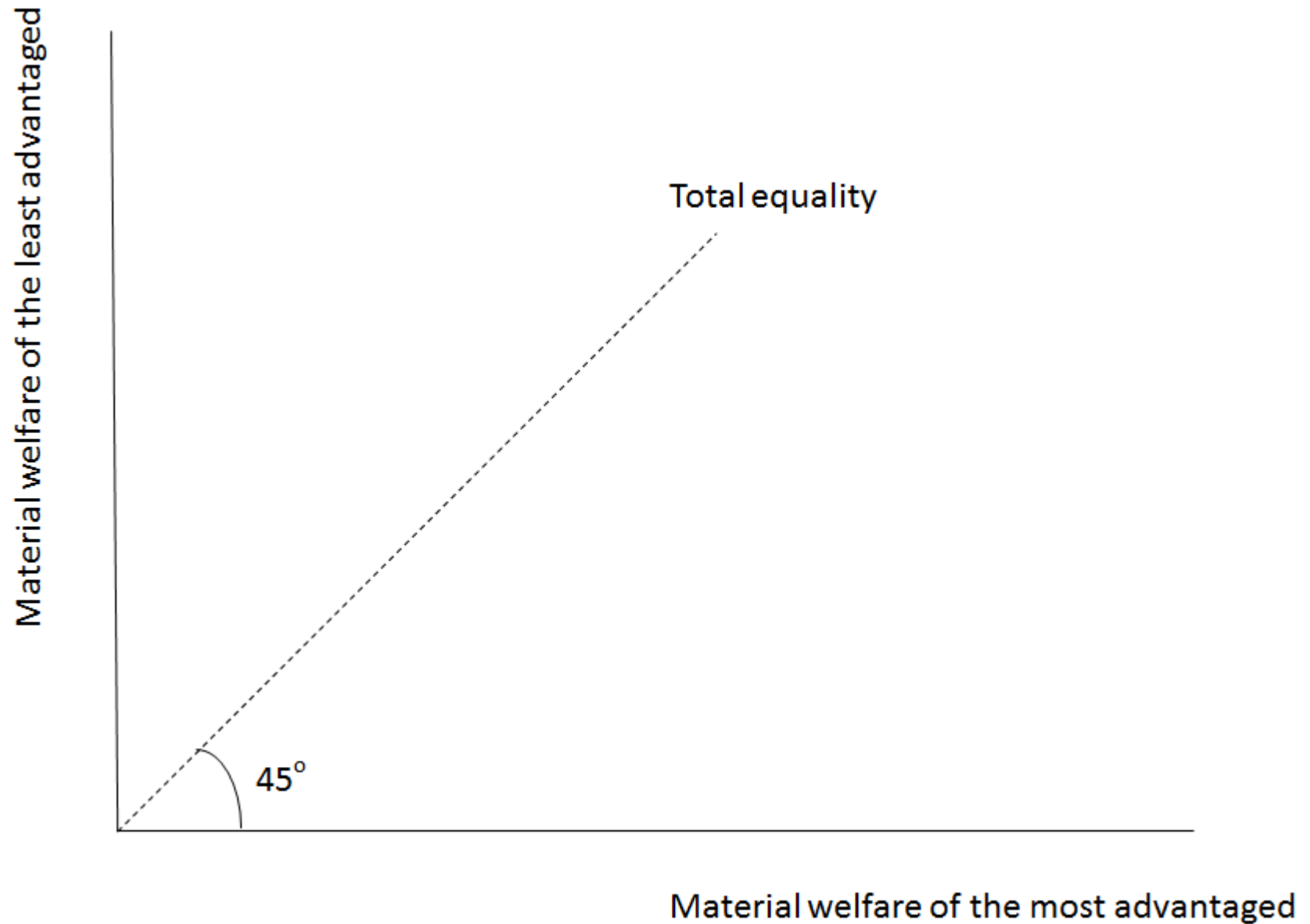
- Extremes:
 - Complete equality of income and wealth (outcomes) removes incentives and rewards
 - Complete inequality creates mass misery and degrades to slavery
- Intermediate possibilities:
 - Justifying some level of inequality
 - Identifying “natural” economic and political/legal limits

How far have we come? Remember
the old Anglican hymn

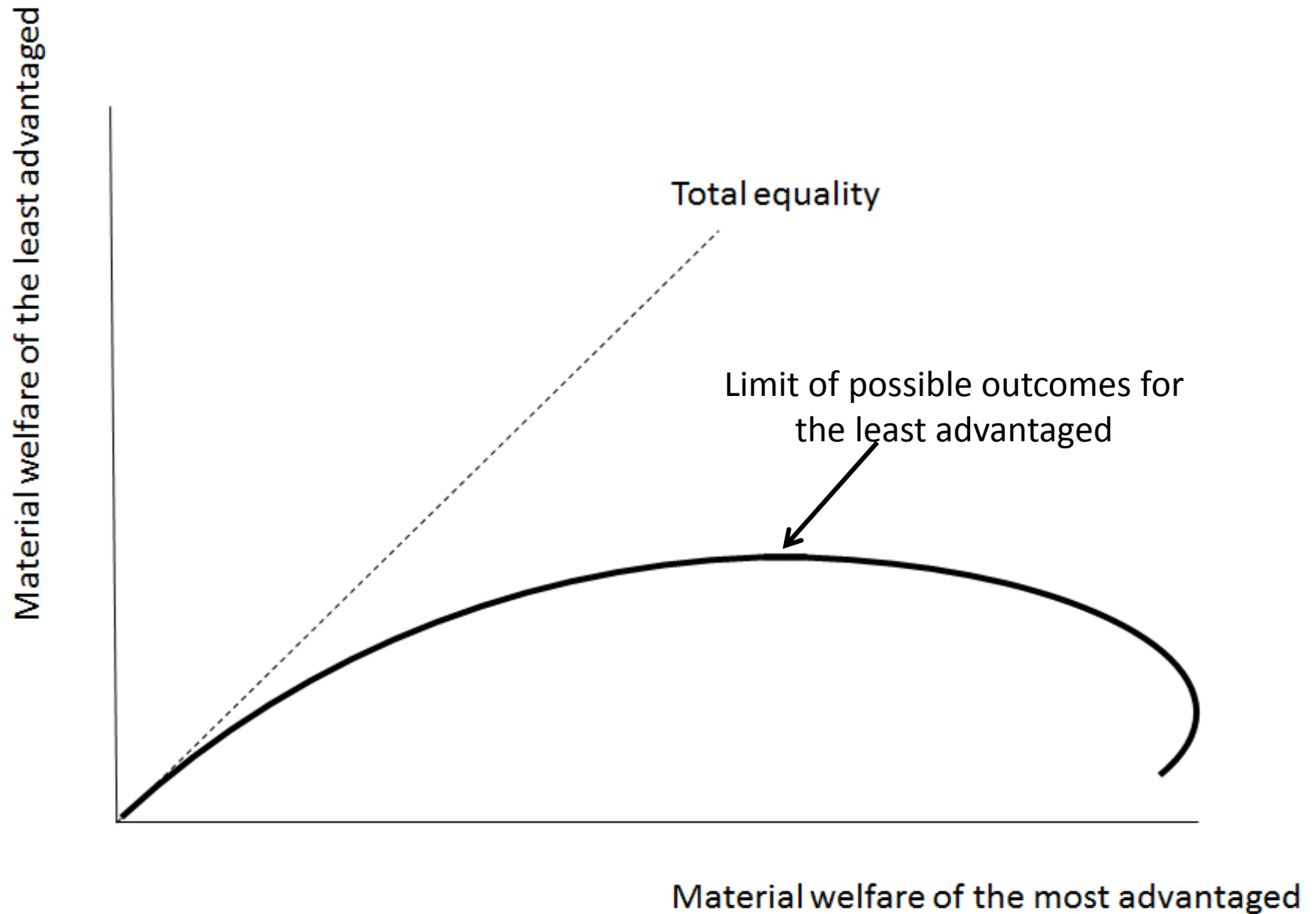
The rich man in his castle,
The poor man at his gate,
God made them high and lowly,
And ordered their estate.

Original verse 3 from the hymn “All things bright and
beautiful” – now deleted from the hymn

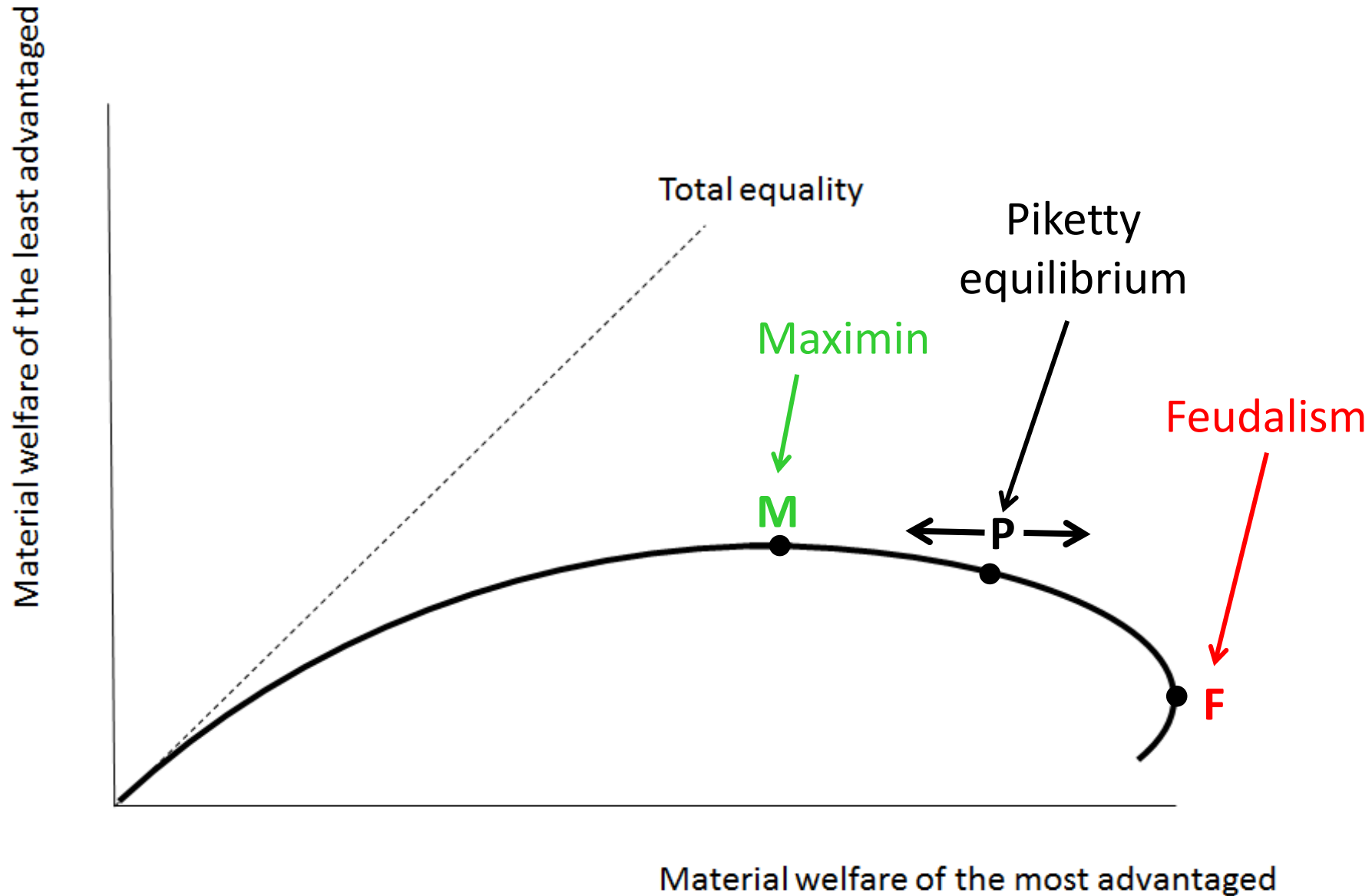
Maximin: the Rawls diagram



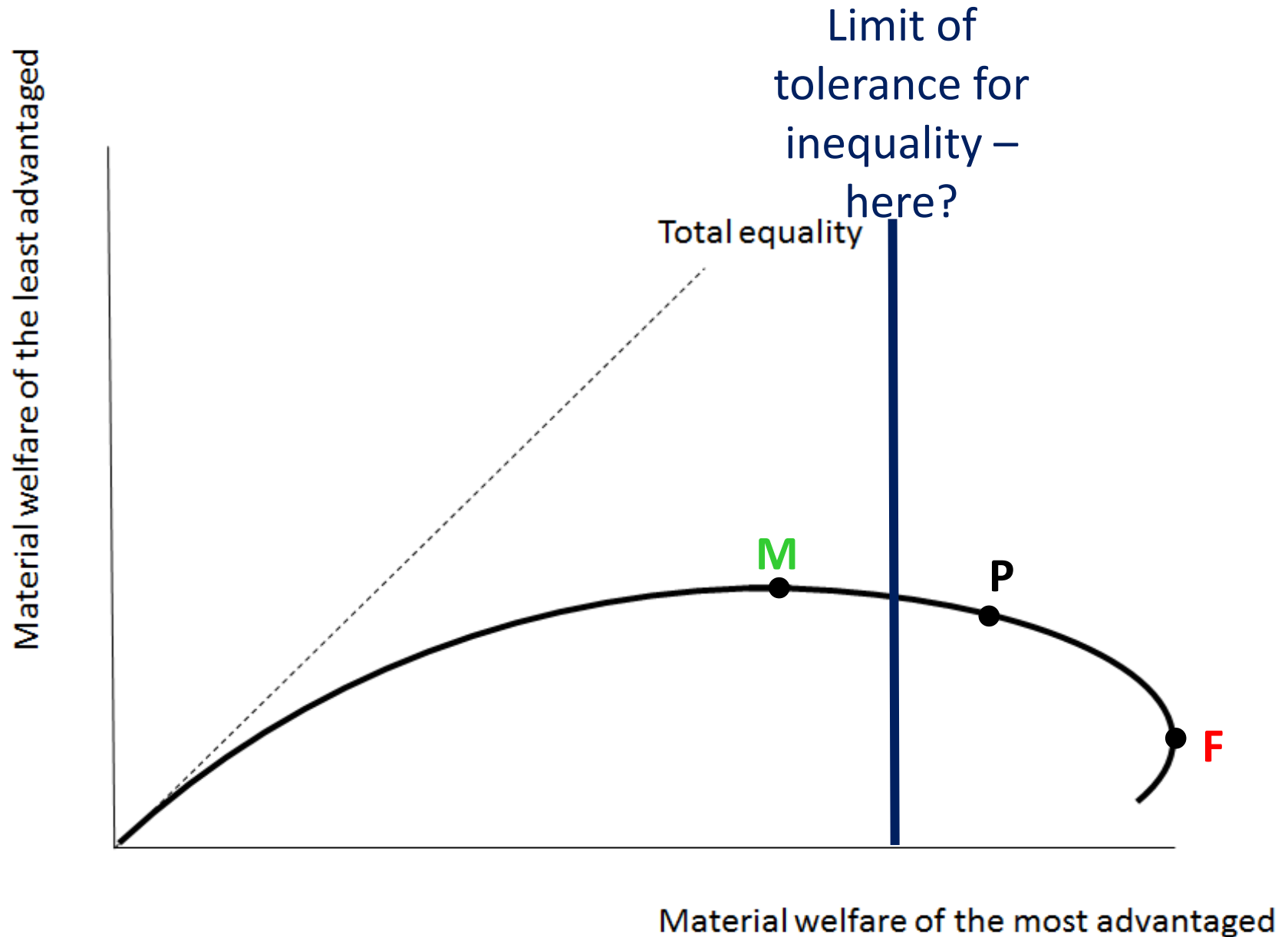
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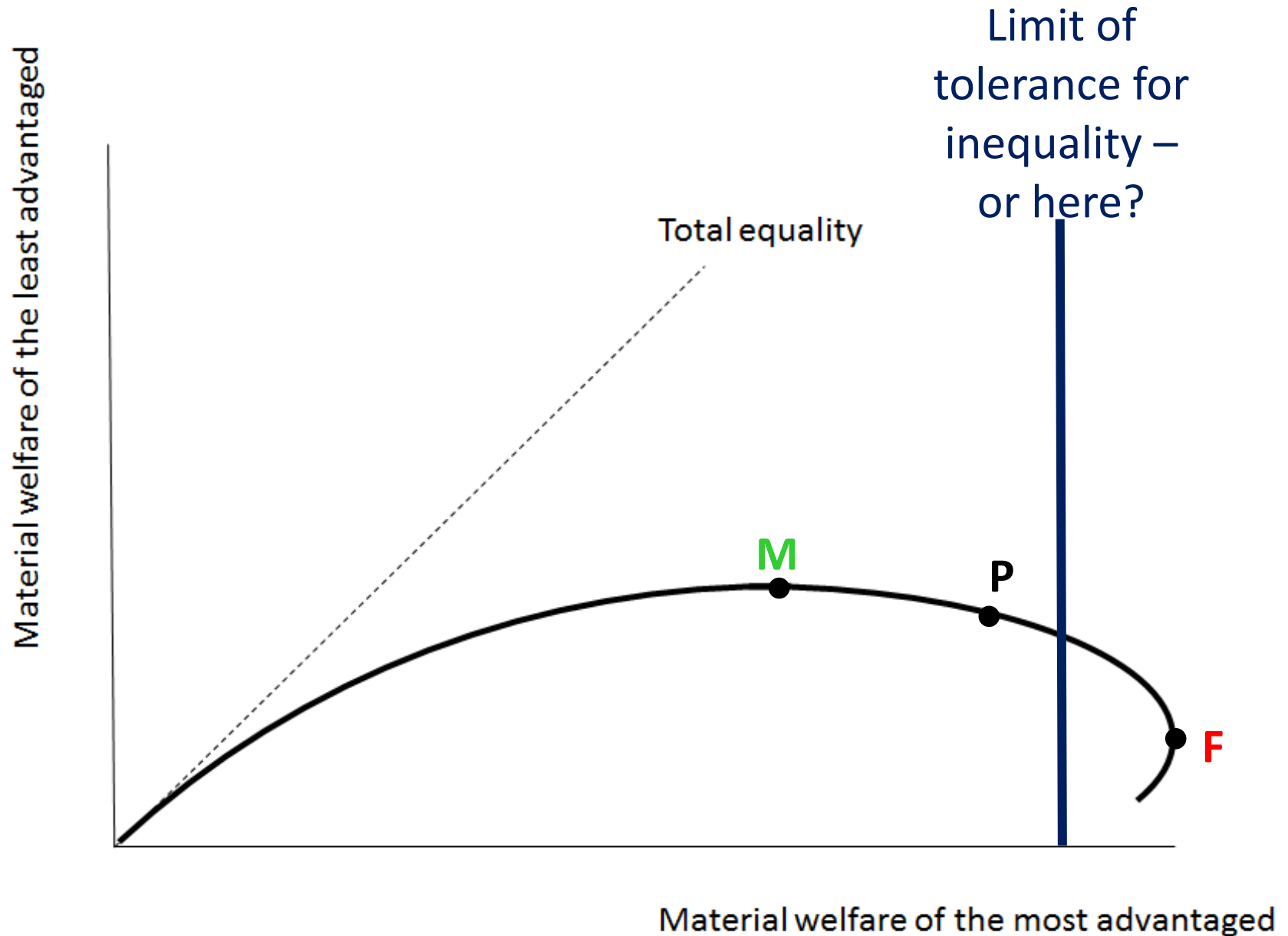
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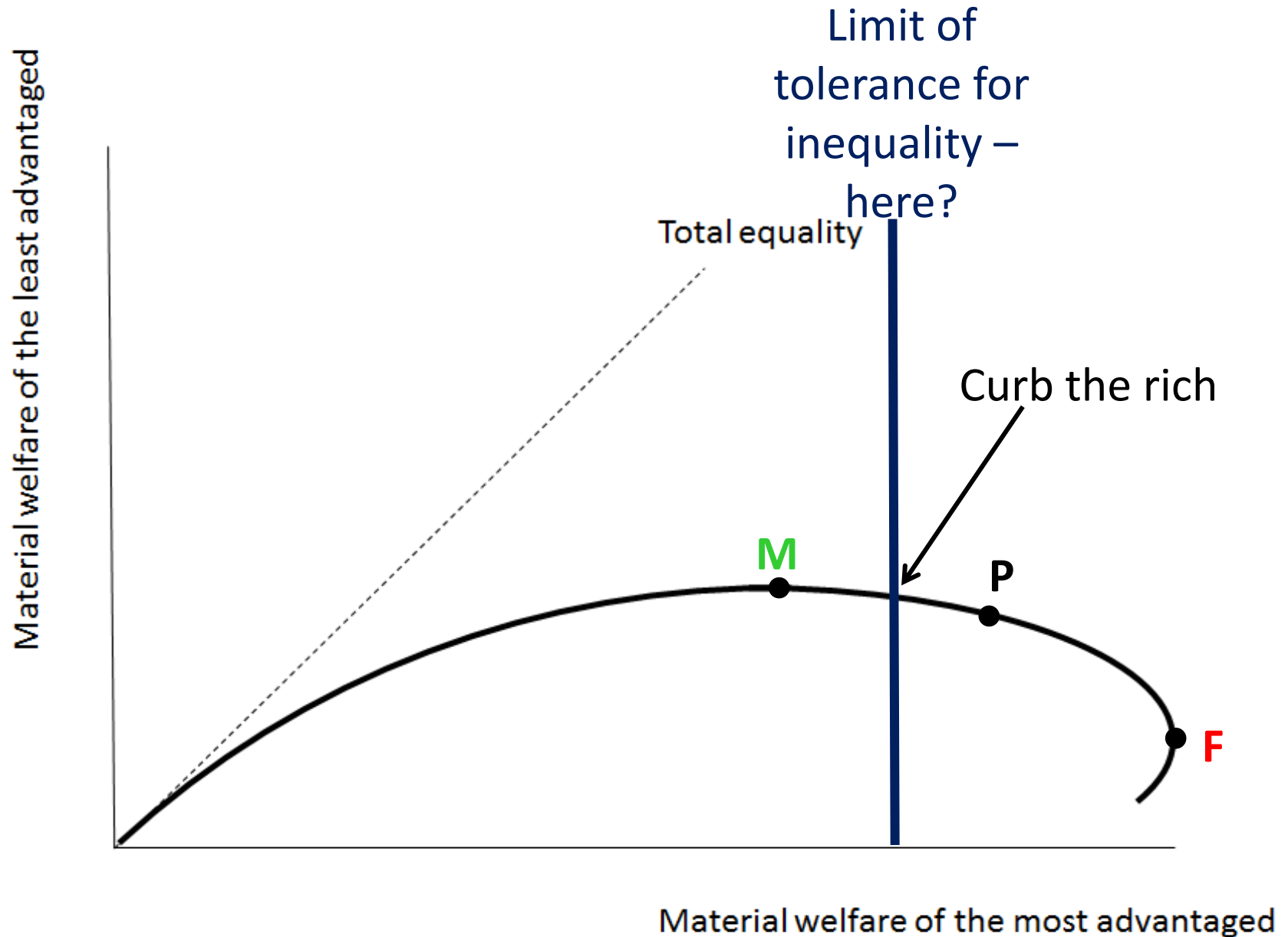
Add Piketty's “democratic tolerance”



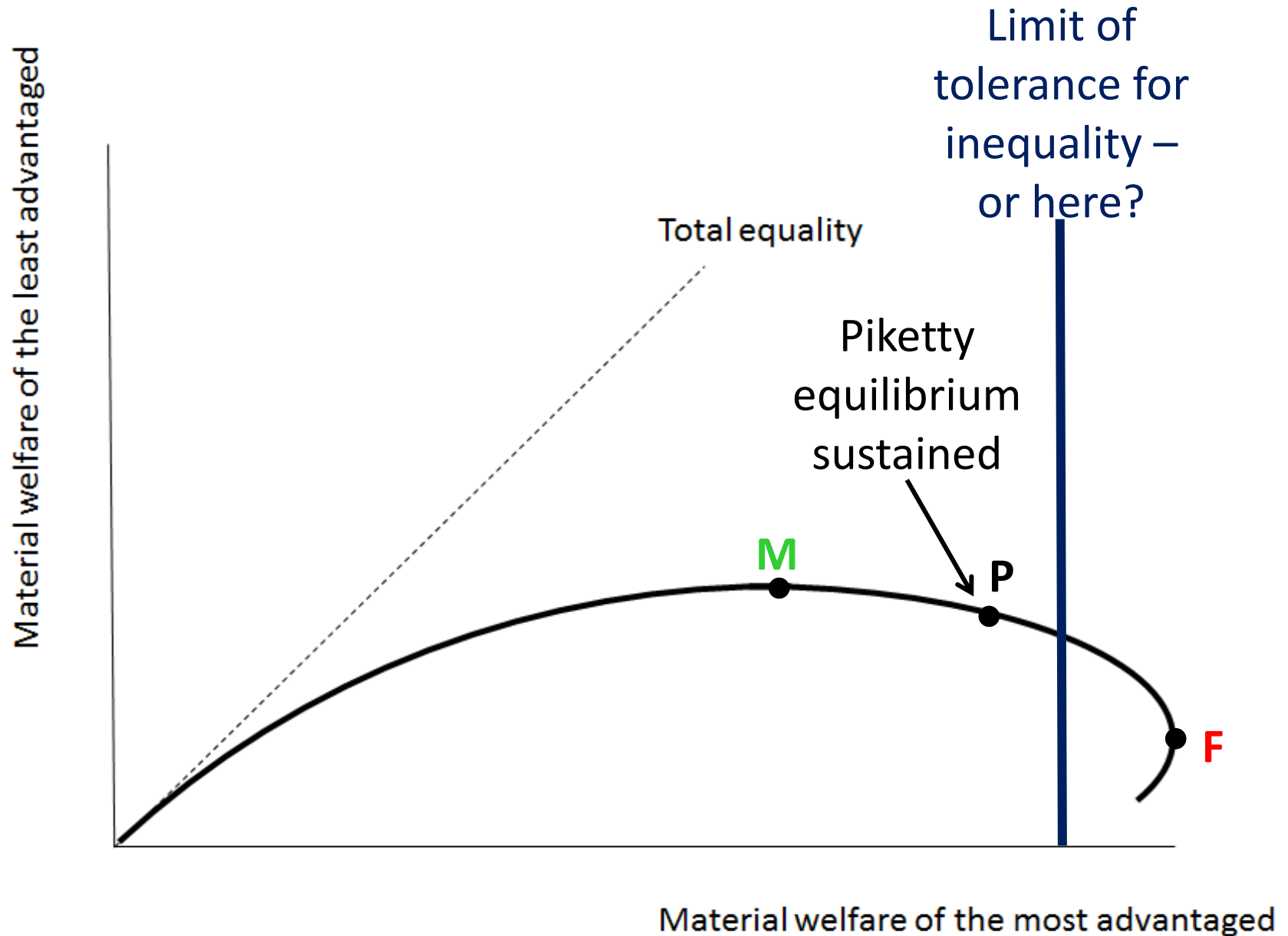
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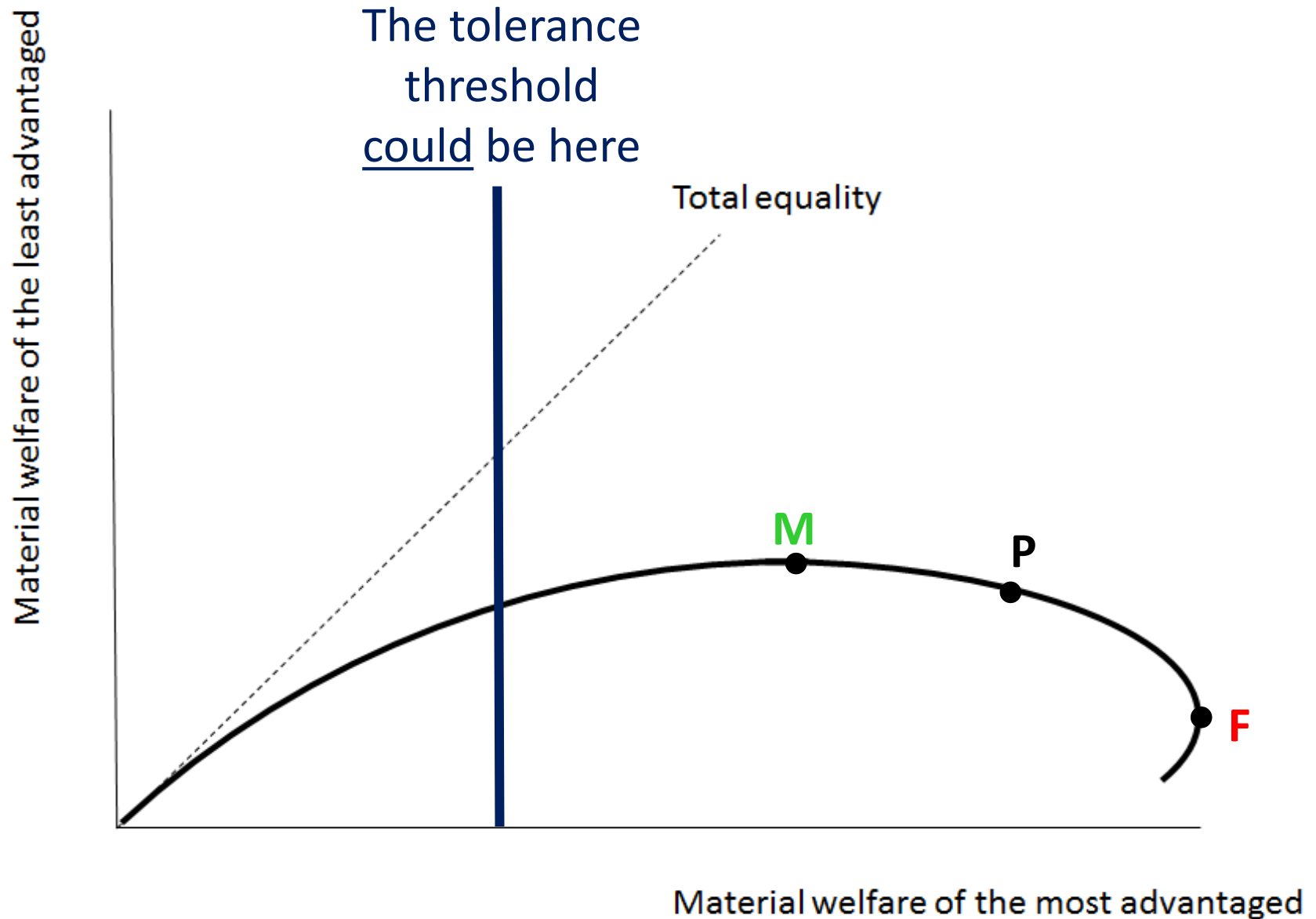
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Key criticism of Rawls: not bread alone



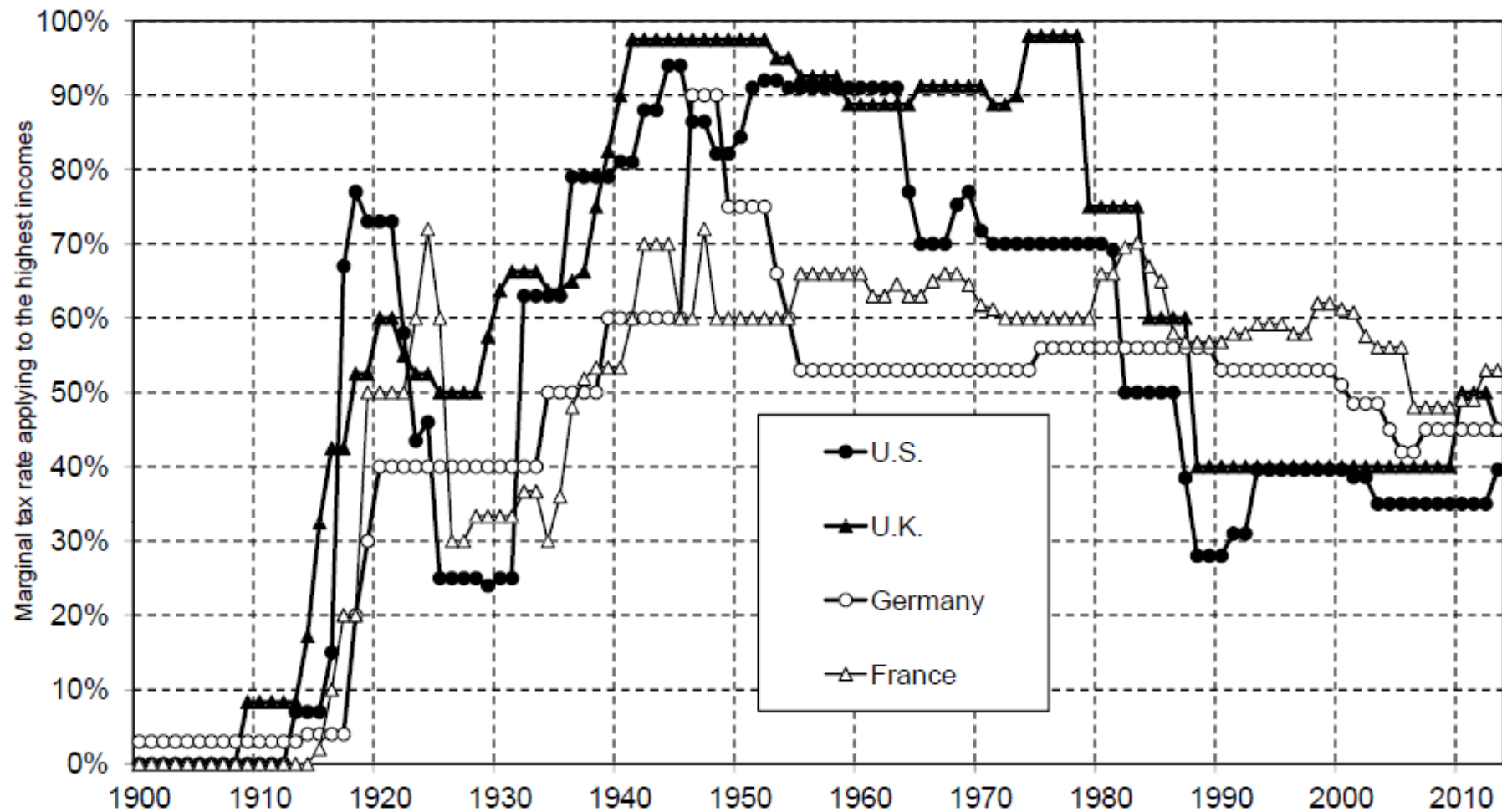
The tolerance threshold is justice in the basic common-law sense

- Up to M the case for greater inequality is higher material welfare for all – “pareto gains”
 - But subject to the political constraint of the tolerance threshold
- Beyond M , the case for greater inequality has to be either entitlement (property rights) or pie in the sky

Note that we are talking here about an upper limit on wealth/income

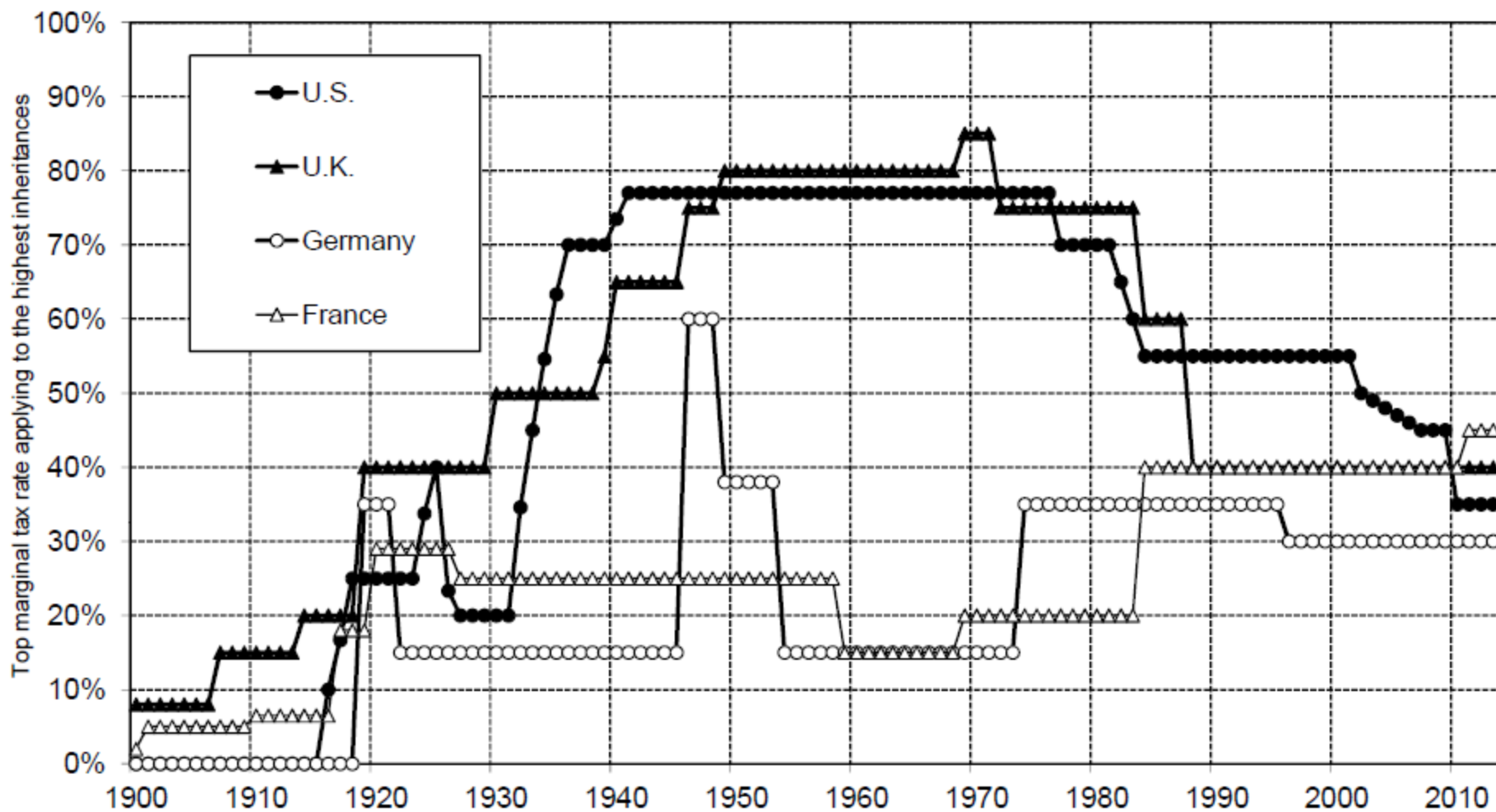
- E.g. restricting the pay gap between top and bottom in firms, government, maybe the economy as a whole?
 - Think of enforcement mechanisms
- Asset taxes, limits on inheritance of wealth, very high top income tax rates
 - Piketty reminds us of twentieth century rates:

Figure 14.1. Top income tax rates, 1900-2013



The top marginal tax rate of the income tax (applying to the highest incomes) in the U.S. dropped from 70% in 1980 to 28% in 1988. Sources and series: see piketty.pse.ens.fr/capital21c.

Figure 14.2. Top inheritance tax rates, 1900-2013



The top marginal tax rate of the inheritance tax (applying to the highest inheritances) in the U.S. dropped from 70% in 1980 to 35% in 2013. Sources and series: see piketty.pse.ens.fr/capital21c.

Very high incomes not productively justified

- Primarily flow from exercise of power
 - CEOs effectively hold boards and shareholders to ransom
 - Wealth owners capture policy to minimise their tax and maximise their returns
 - Massive finance-sector profits do not correlate to economic performance
- In turn, power flows from great wealth – a vicious circle

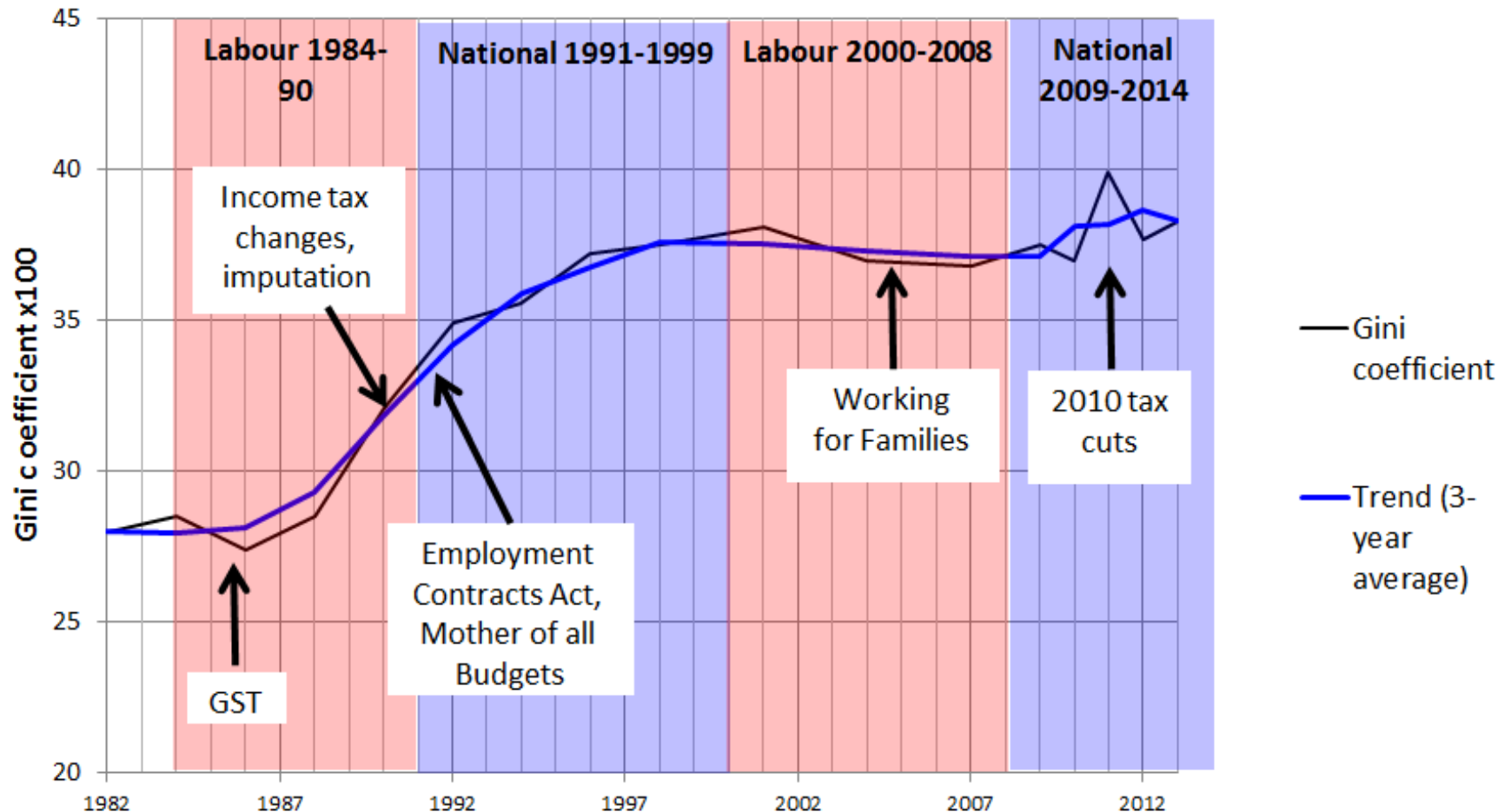
From abstract theory to reality

- Review evidence on inequality in New Zealand
- Put New Zealand experience into international context
- Where does policy come to bear?
- What happens if harsh reality cannot be held within the tolerance threshold?

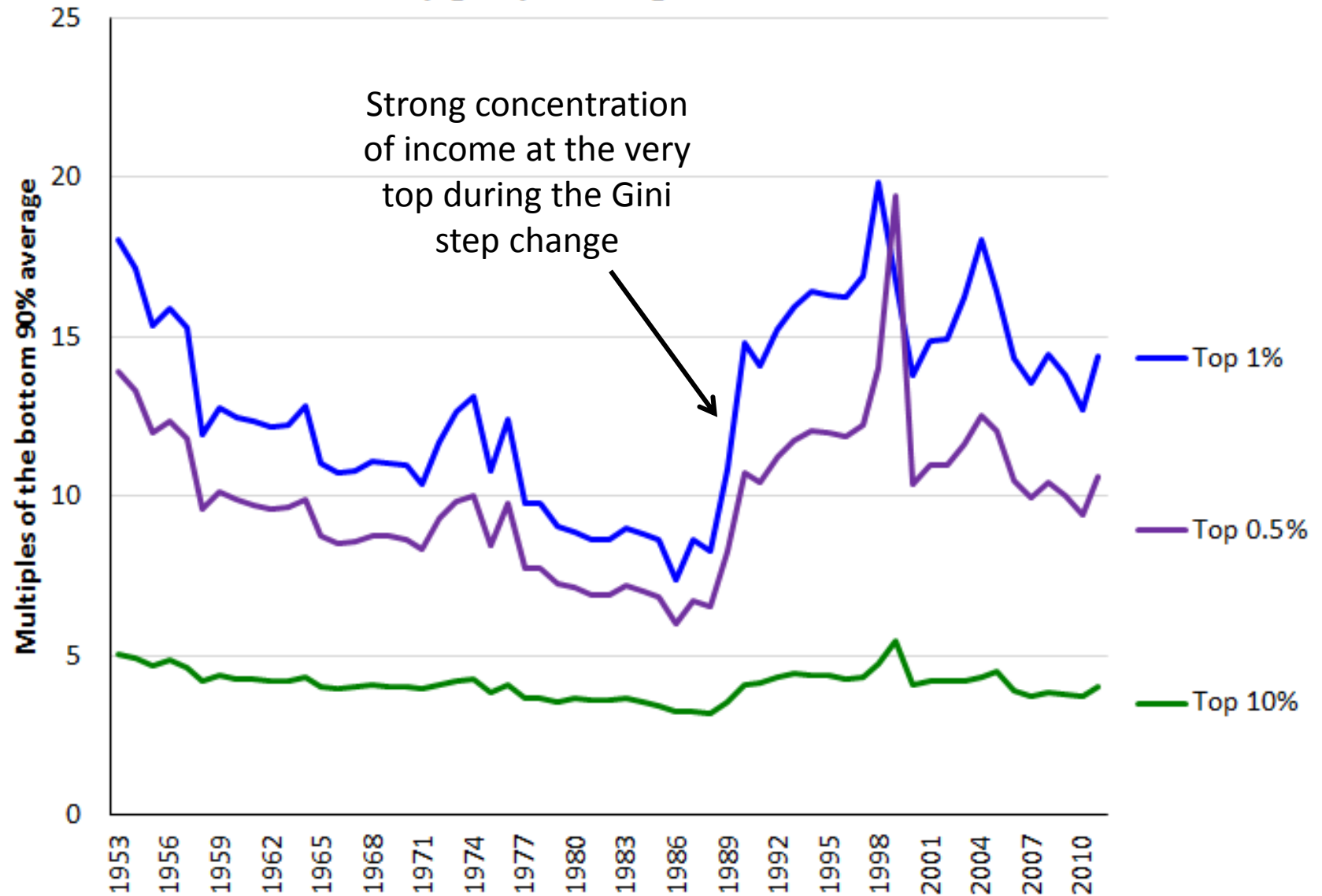
Recent developments in New Zealand

Step-change in income inequality 1987-1994; then minor variations to 2013

Gini coefficient for household disposable income after housing costs, under four administrations 1982-2012



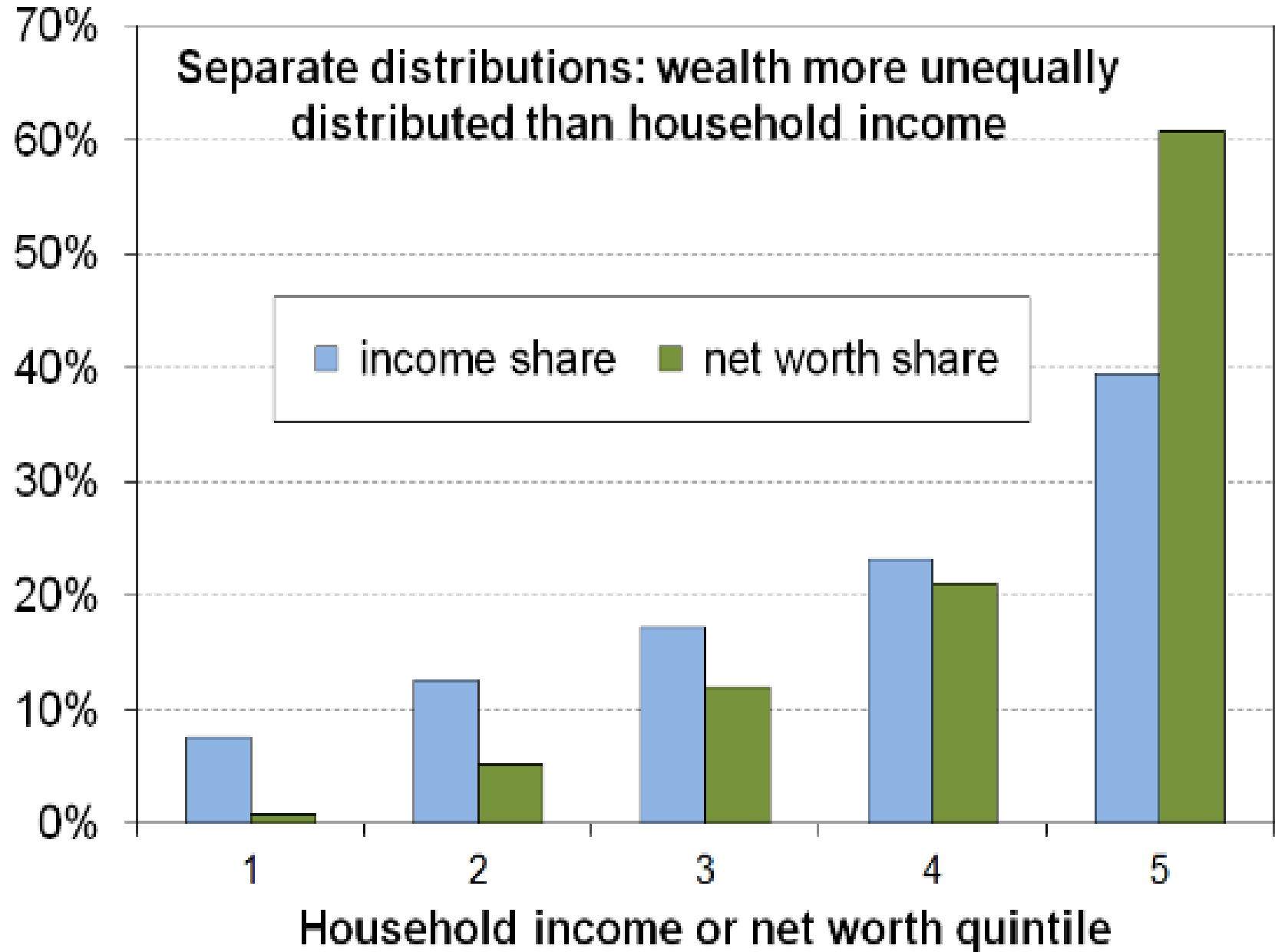
Ratio of top groups' average incomes to bottom 90% average



Wealth in New Zealand

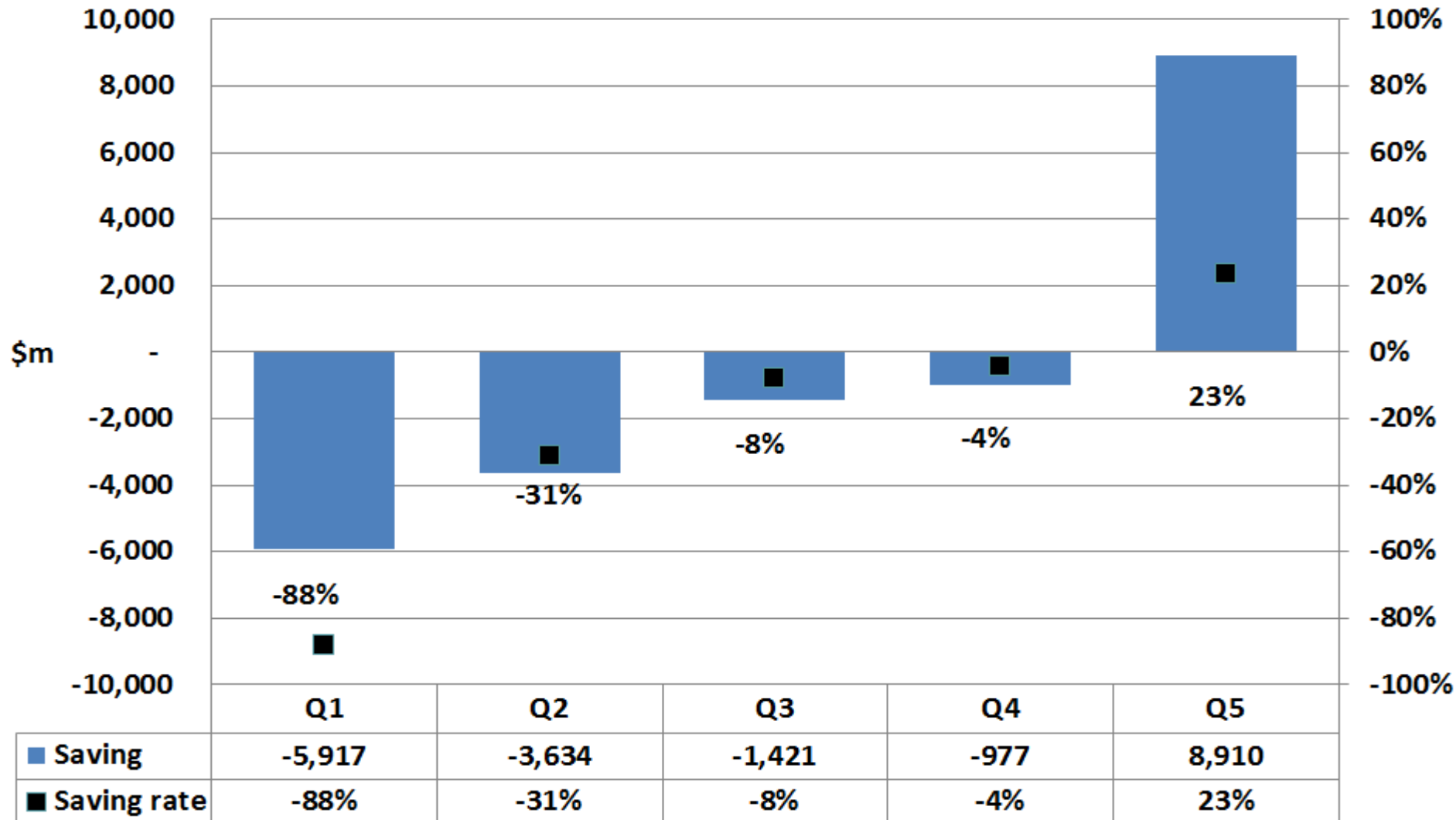
- Direct data on wealth is scarce but points to rising inequality
- Wealth Gini scores are typically two to three times those for income.
- In New Zealand, those in the top income decile receive close to 25% of gross income, while those in the top wealth decile hold 50% of the total wealth.
- The limited data available on wealth mobility points strongly to low mobility / high immobility for those with very high wealth.

Bryan Perry, *Household incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2013* Ministry of Social Development July 2014 p.20., <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html>

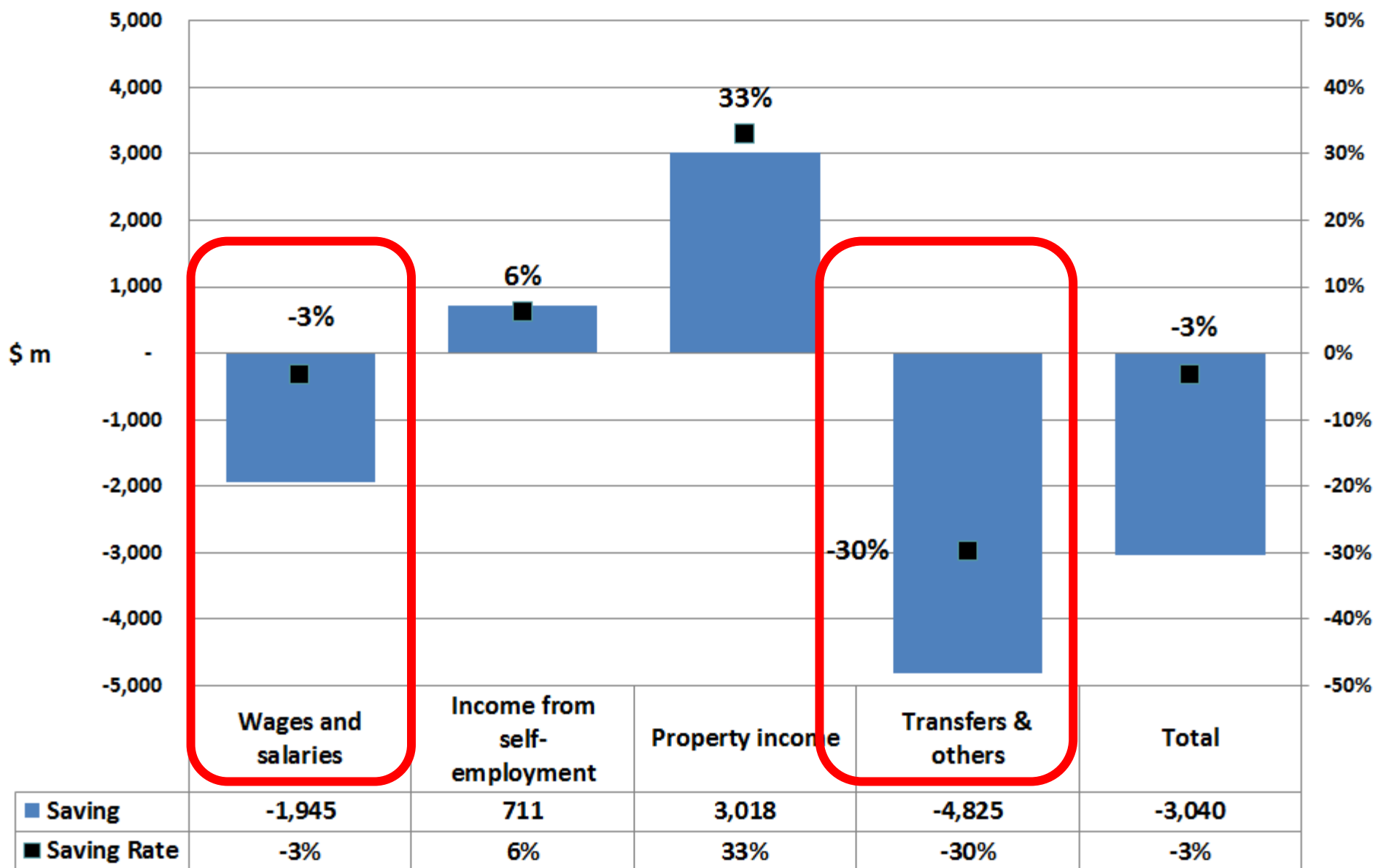


The great disequalising of 1989-94 pushed low-income groups into dis-saving. As of 2007 we see:

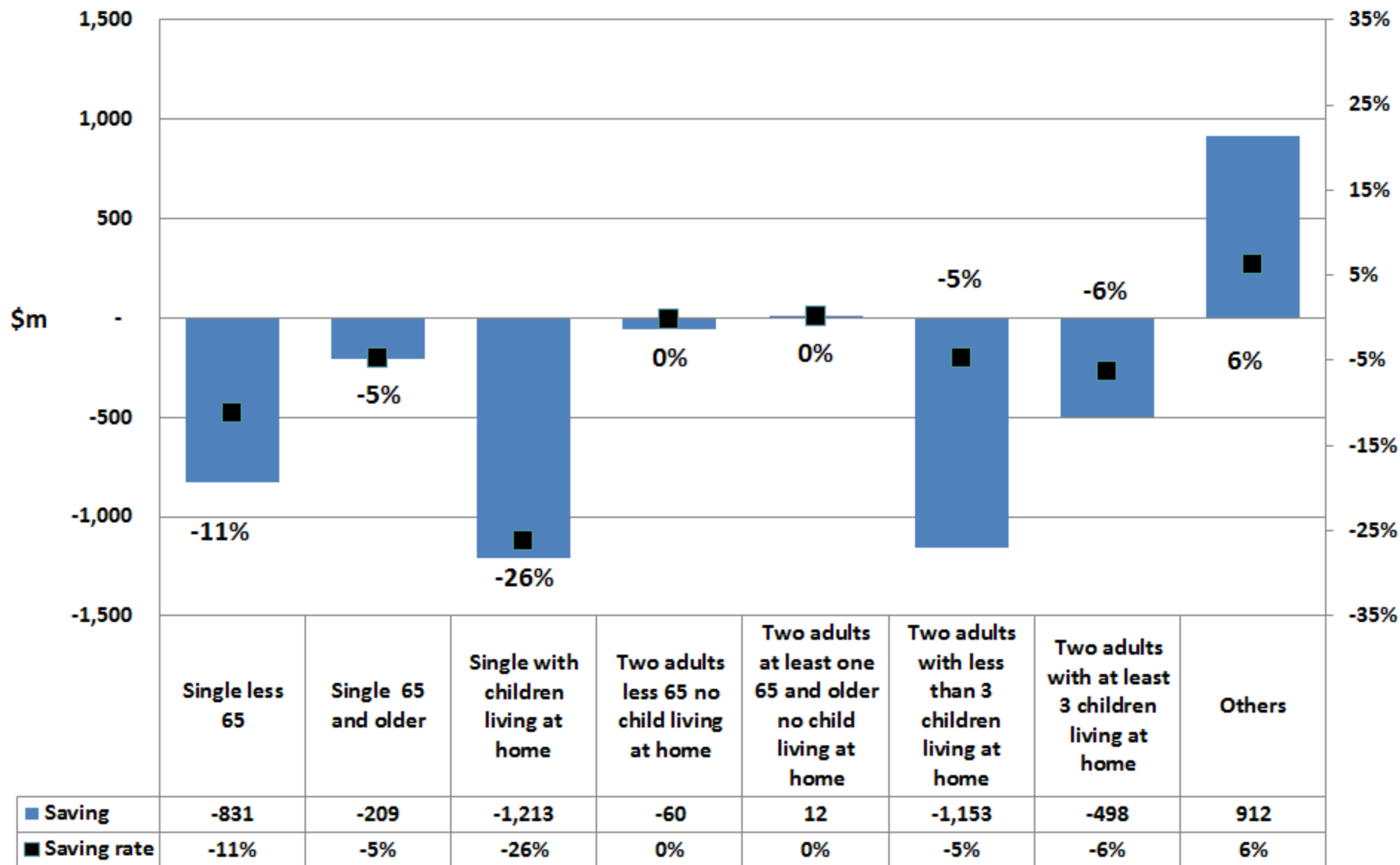
HH Gross Saving (LH scale) and Saving rate (RH scale) by Quintile



Gross Saving (LH scale) and Saving Rate (RH scale) by Main Income Source

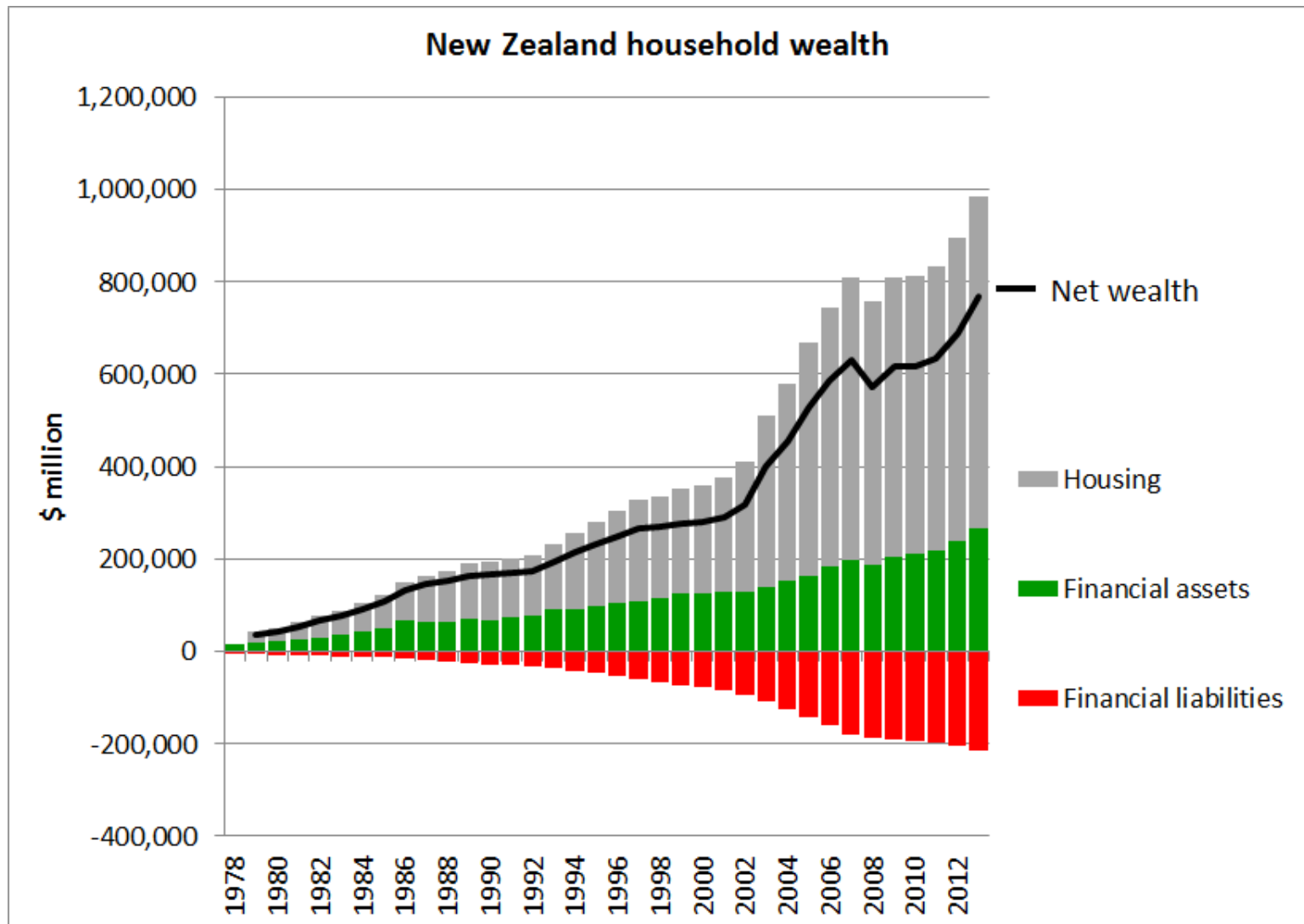


Gross Saving and Saving rate by HH type



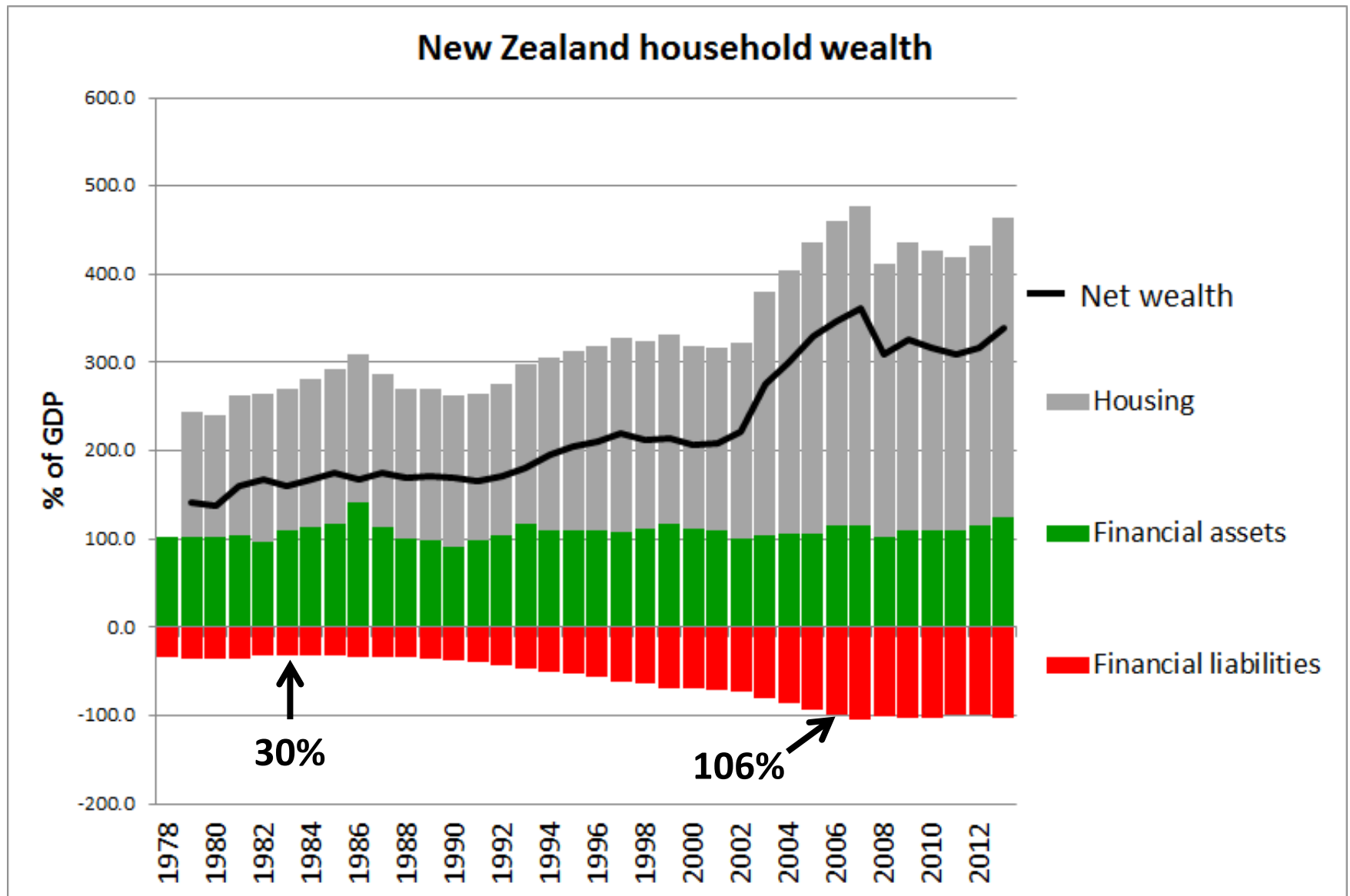
Jeff Cope (Principal Economic Statistician, Statistics NZ),
Measuring Household Distributions
within a National Accounts Framework, May 2013

Income repression at the bottom => non-property-owning households have seen their balance sheets weakening for over two decades



Source for data: <http://www.rbnz.govt.nz/statistics/tables/c18/hc18.xls>

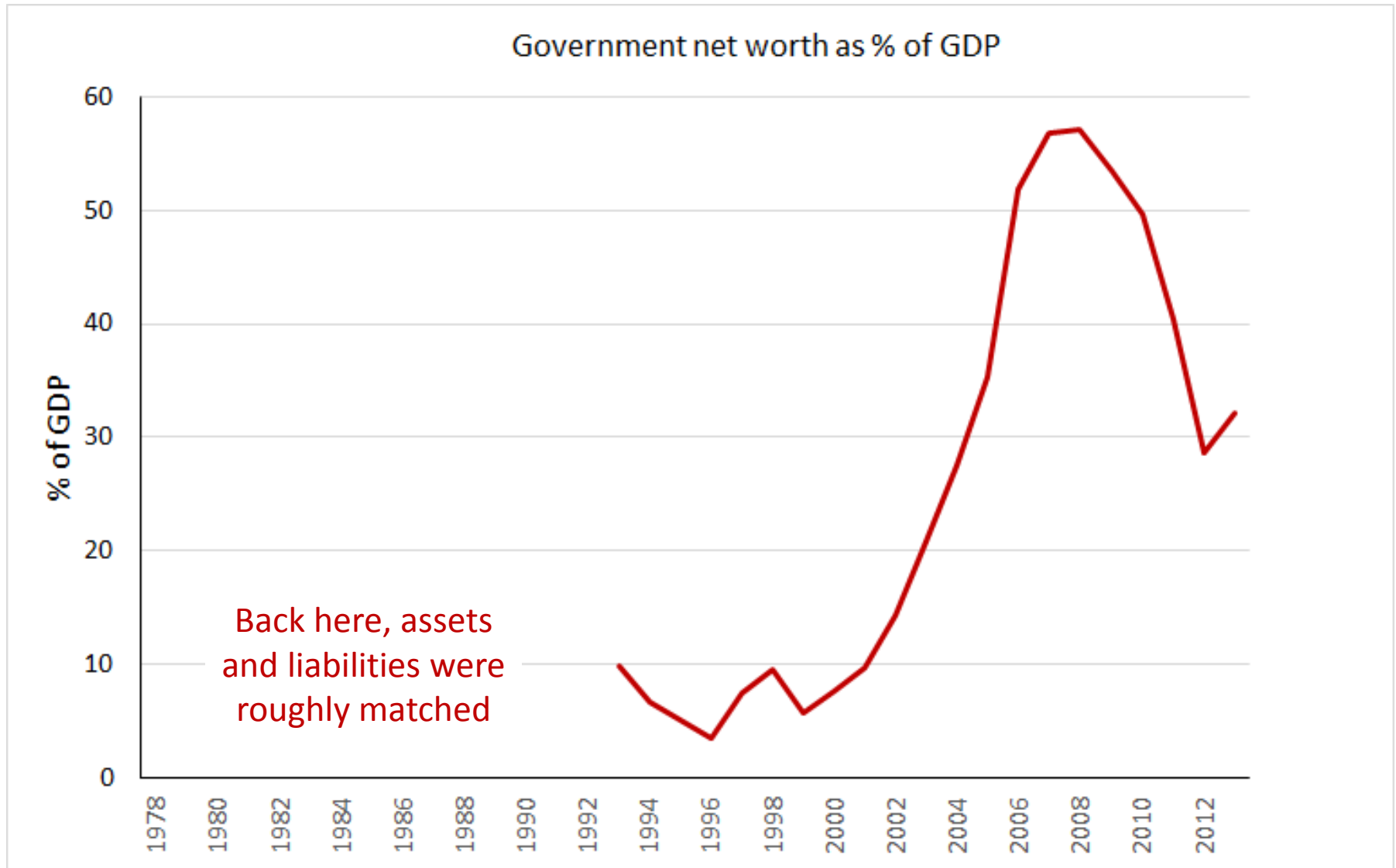
Put that data in Piketty terms as % of GDP



Limited high-security borrowing capacity and continuing low incomes at the bottom => loan sharks and drastic cuts in household expenditure

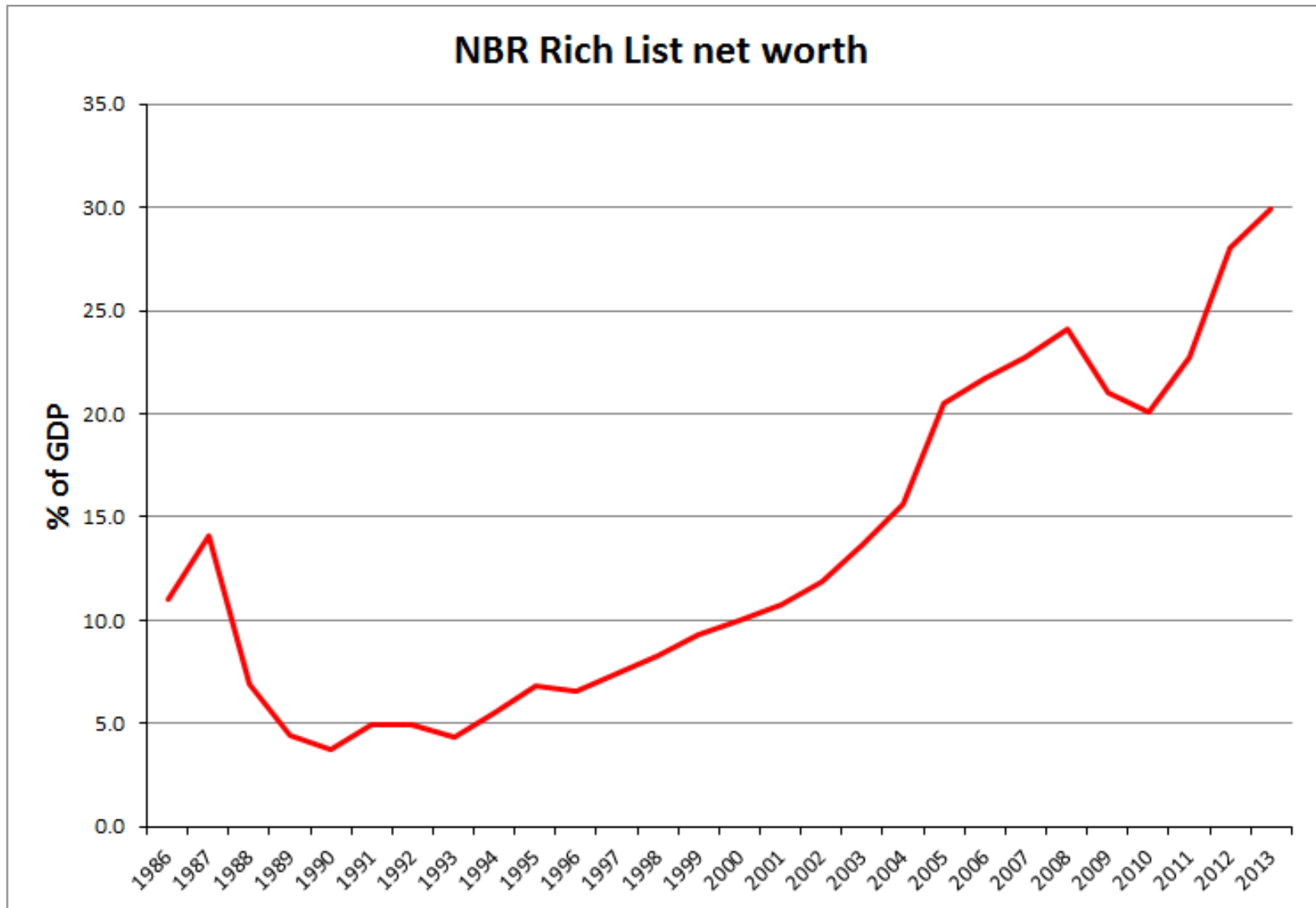
- Multiple occupancy of houses and garages
- Electricity disconnections and self-disconnections
- Child poverty takes increasingly visible forms

Fattening Government.....



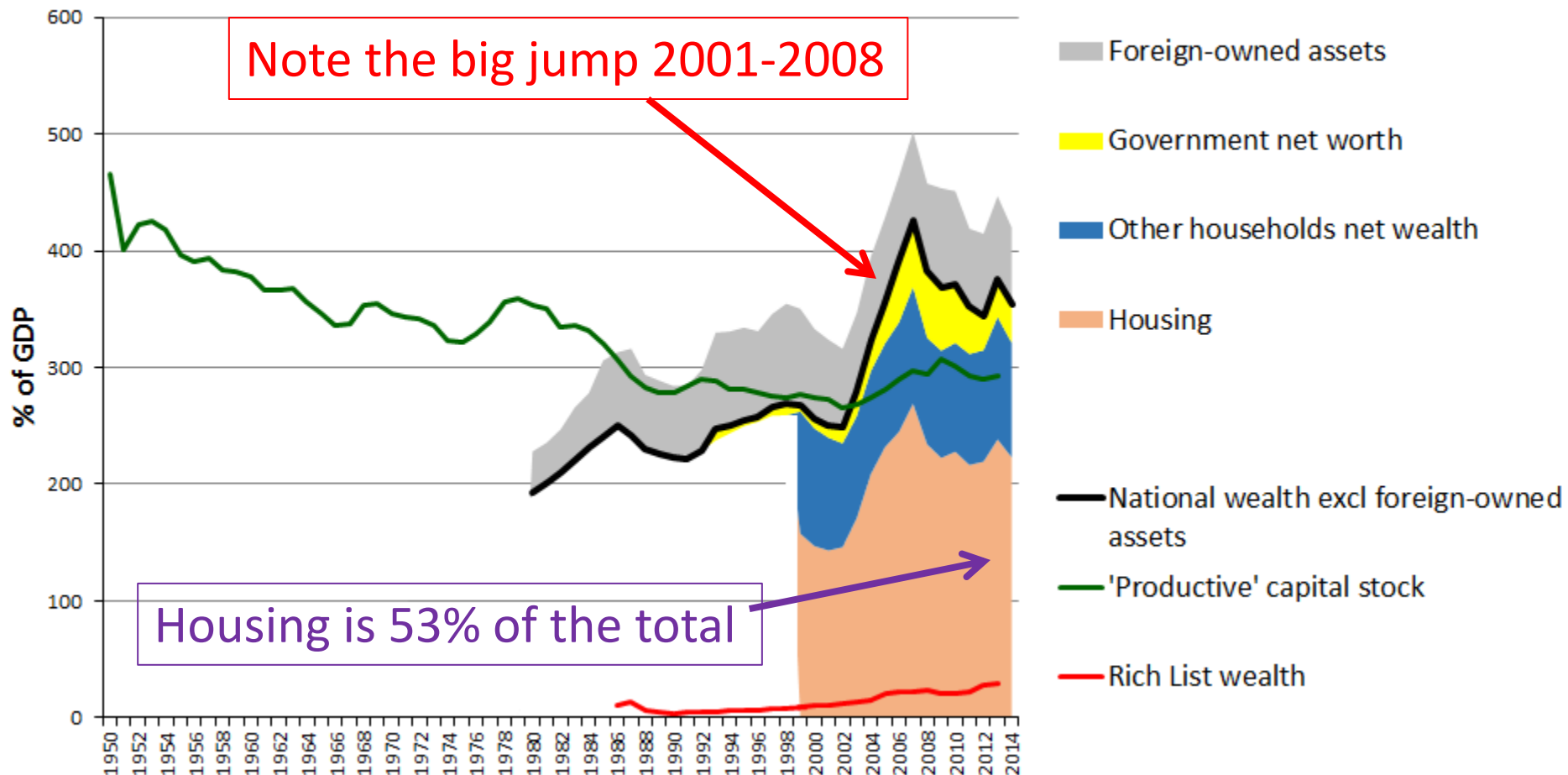
Source: Government financial statements

and the NBR Rich List...



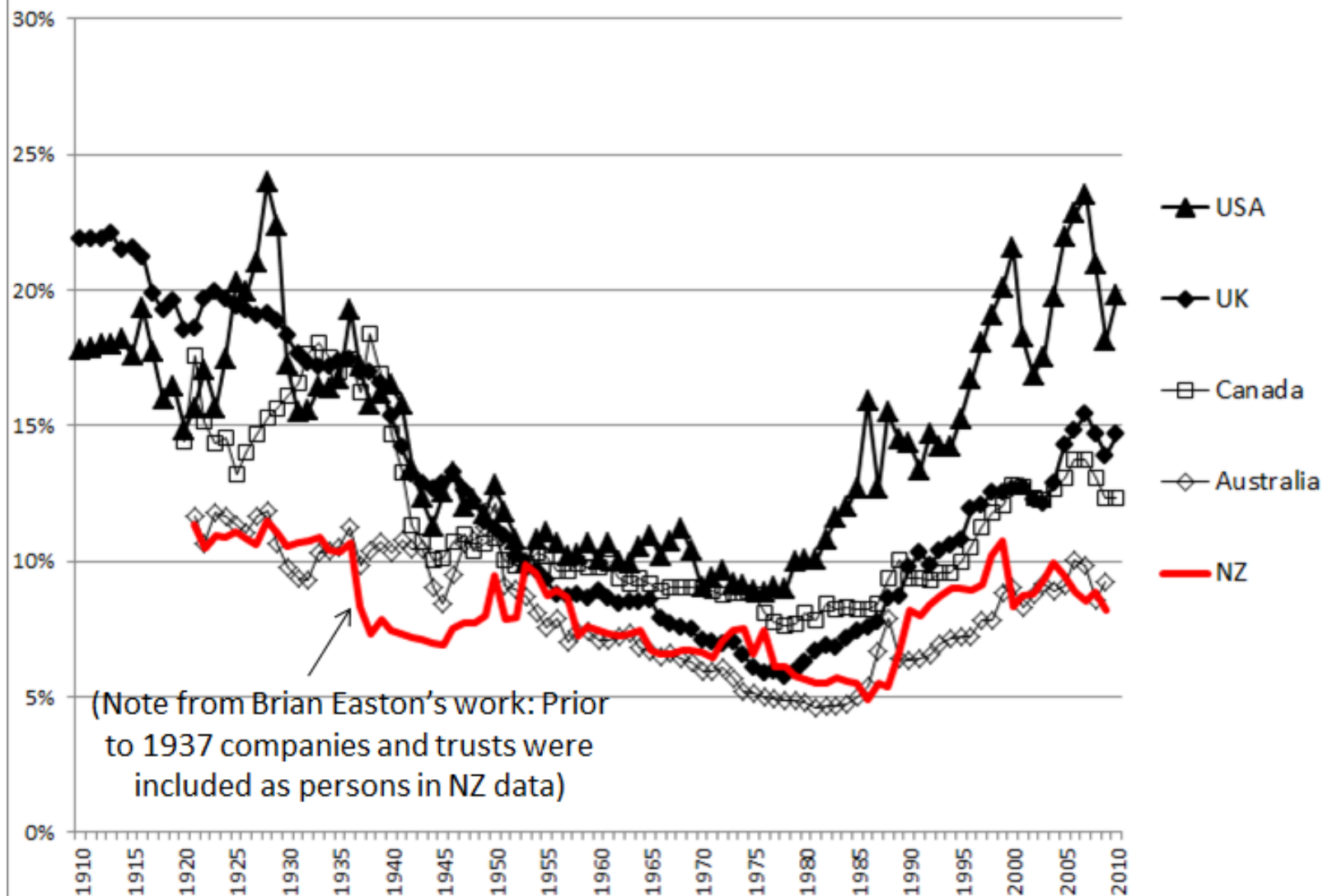
Add private and public wealth, take out net foreign ownership, and:....

New Zealand wealth data



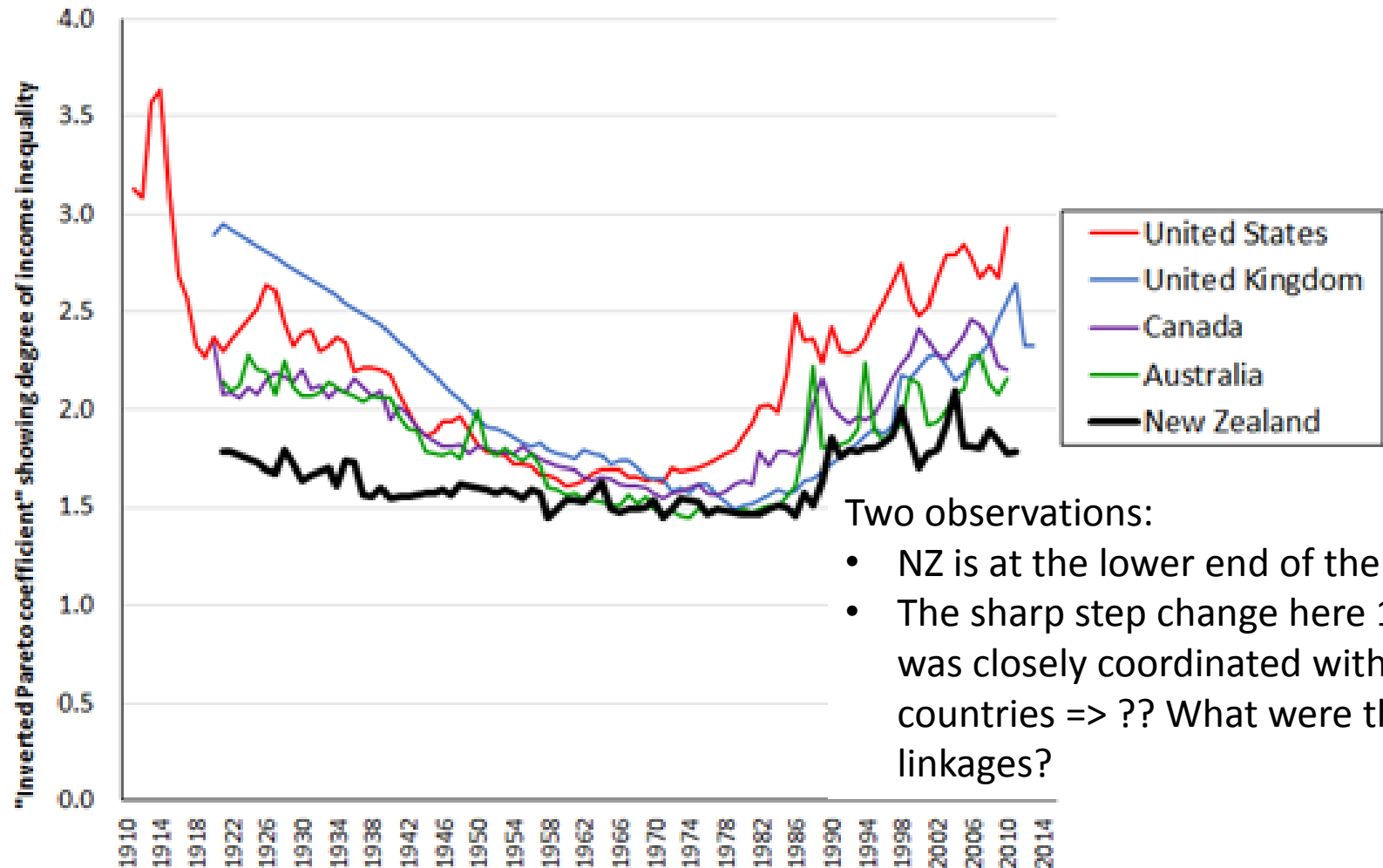
That all may sound as though there was an autonomous NZ policy realm.... BUT look at Piketty's charts (with NZ added as necessary)

Income share of the top 1% in Anglo-Saxon countries including NZ



Inverse-Pareto coefficients

Inequality in English-speaking countries 1910-2011



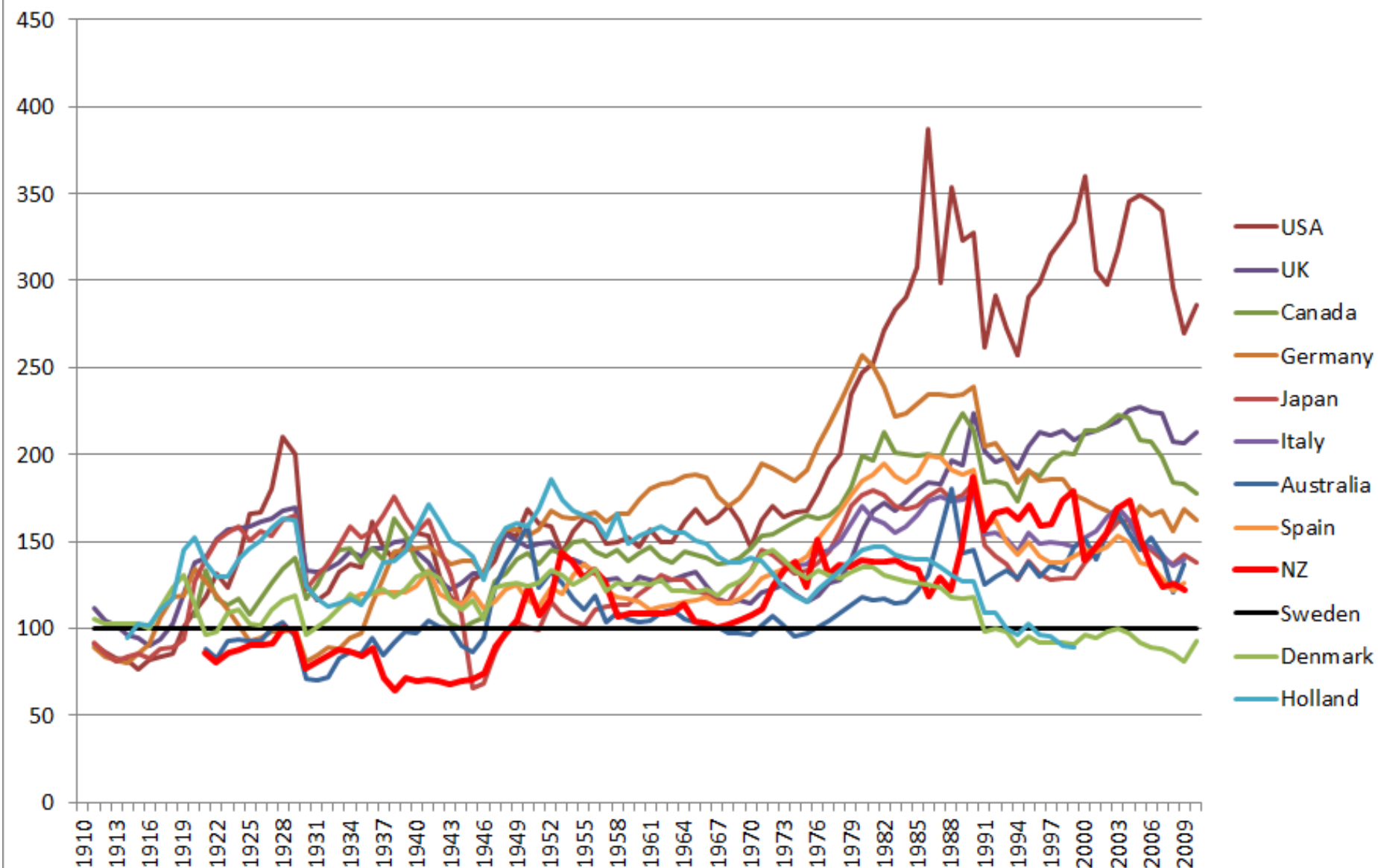
Two observations:

- NZ is at the lower end of the anglos
- The sharp step change here 1987-94 was closely coordinated with other countries => ?? What were the linkages?

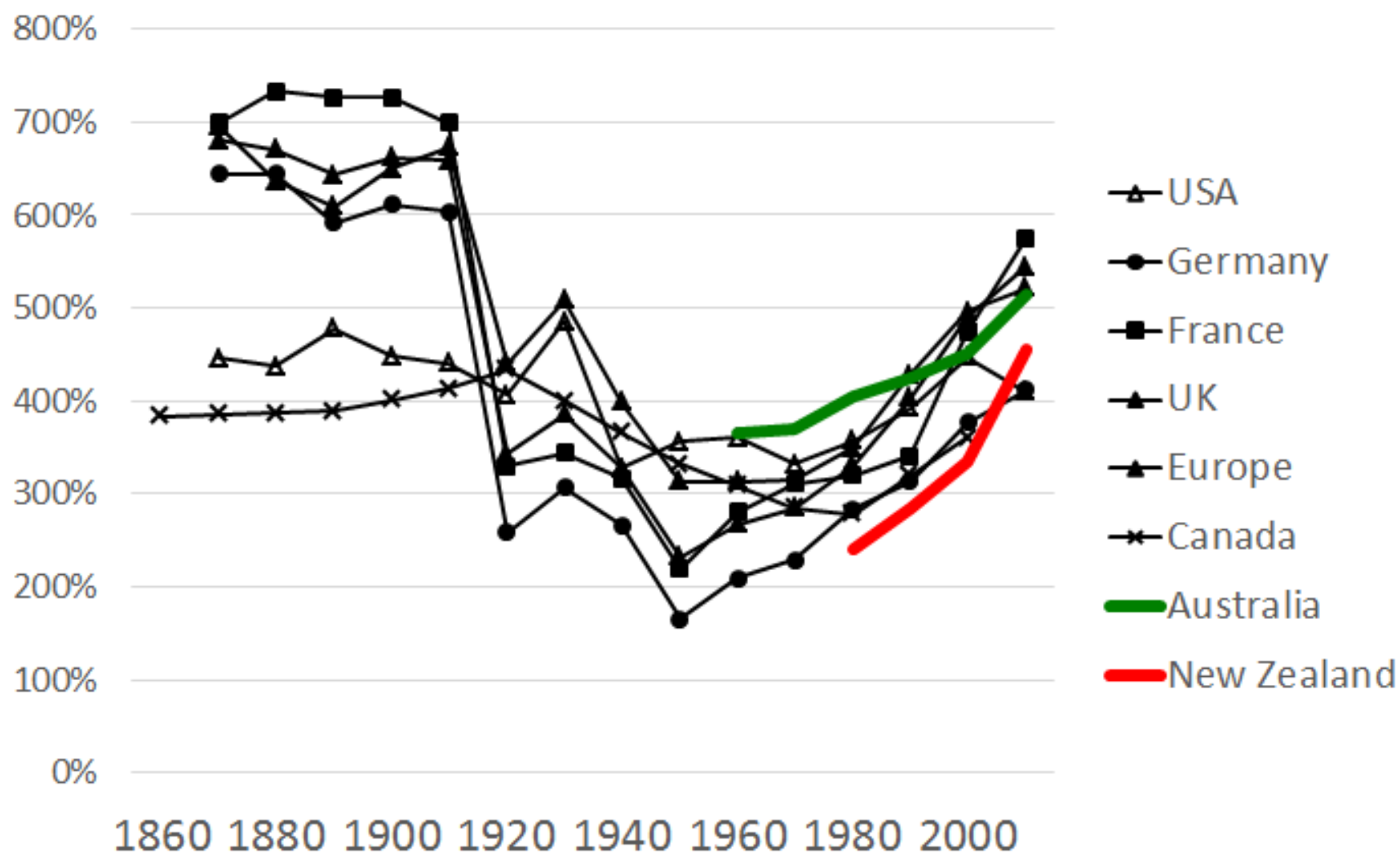
Source: <http://topincomes.g-mond.parisschoolofeconomics.eu/#Database>

accessed May 2014

Top 1 share relative to Sweden



Capital/income ratios in rich countries: Piketty data including Australia, plus my NZ estimates



Were Roger Douglas and Ruth Richardson just pawns/facilitators in a global game?

- The big disequalising forces came from outside
- The big policy choice was to accept or resist
- New Zealand threw its doors open
- Does NZ now have policy space to roll back inequality?

Twentieth-century lessons

- Award wages worked for eighty years => precedent for higher minimum wage=living wage
- Increased equality did not slow growth but increased inequality does (Ostry et al 2014)
- Income taxes, asset taxes, and capital gains taxes are avoidable by the rich in a fully globalised economy => tax autonomy requires some insulation
- Property rights cannot be unlimited: the collective is entitled to impose social requirements on property => regulation

Inheritance is a vital area

- Rawls: abolish inheritance altogether
- 20th century: imposed estate and gift taxes
- 21st century: perhaps treat all inheritance gains as simple income in the recipients' hands and tax accordingly?

Back to community law...

- Restrain the abuse of power
- Empower the weak to assert their legitimate claims
- Counteract anti-poor narratives from Government and some media
- Identifying and maybe shifting the tolerance threshold of the New Zealand electorate is a wider task