Widening gulf between rich and poor in New Zealand

A correspondent
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The gulf between rich and poor in New Zealand grew significantly between 1982 and 1996, according to a recently released report by the official government statistics department, Statistics New Zealand. Commenting on the report, Len Cook, the chief statistician, said: "What is striking about ...this report is that the results are unequivocal: income inequality has increased substantially".

Over the 14 years of the period studied, the wealthiest 10 percent of households increased their share of the country's after-tax income from 20 percent in 1982 to 25 percent in 1996. In contrast, the position of middle income earners deteriorated. In 1982, the middle 70 percent of income earners took 71 percent of income, but by 1996 this had dropped to 66 percent. The bottom 20 percent have never earned more than 9 percent of total income.

A layer of working people has been forced to rely on benefits to top up inadequate wages, despite the increased targeting of social welfare by successive governments to restrict eligibility for benefit payments. In the period 1982-1986, the bottom 30 percent of households obtained more from welfare benefits than they paid in taxes, but by 1991-96 the figure had increased to the bottom 40 percent.

The sharpest change in income distribution occurred between 1986-91. This decisive middle period straddles the entire second half of the 1984-1990 Labour government, followed by the assault on living standards by the National government. In 1991, the Nationals slashed welfare benefits and introduced the Employment Contracts Act to undermine wages.

At the bottom of the income range, the chief victims of the social restructuring program of Labour and Nationals have been those workers--especially unskilled workers--who have been forced into unemployment, as well as growing numbers of impoverished elderly, and children. The statistics show that:

• Workers without formal educational qualifications were twice as reliant on benefits in 1996 as they were a decade earlier. Maori and Pacific Island workers have been affected in particular.

• The most vulnerable people at the bottom of the income ladder were those over 65, people who live alone and sole parents.

• In 1996, over 25 percent of the country's children lived in households in the bottom 20 percent of income distribution, that is, in the bracket that accounts for only 9 percent of the country's after-tax income.

• Around 28 percent of Maori were in the same low-income group.

Young people have been the hardest hit. Between 1982 and 1996, males in the 15-25 year old age group suffered a 45 percent decline in real personal income, while females in the same age group lost over 30 percent. The next largest reduction was 20 percent for males aged 25-34 years.

For more than a decade youth have borne the brunt of economic restructuring programs. Successive governments have enacted a barrage of measures, which have reduced young people to poverty and indebtedness and forced them into dependence on the declining resources of their families well beyond their teenage years. The legislative changes include:

• The abolition of unemployment benefits for 16-18 year olds and the eligibility for the full adult unemployment benefit set at 25 years.

• "User pays" policies in education including escalating tertiary fees, narrow targeting of inadequate living allowances, a usurious student loans scheme and the removal of access to social welfare benefits for tertiary students.

• The entrenchment of low pay for workers under 20, and job reduction programs, which have led to youth unemployment levels of over 17 percent.

The report indicates that New Zealand's increase in income inequality is as large as, or larger than, other OECD countries where comparative data is available. For more than a decade, the New Zealand model of economic rationalism has been held up as an international example. As a result, between 1982 and 1996, New Zealand's income distribution moved from being "relatively equal" compared with other countries, to a position of "relative inequality" compared with these countries.

Political responses to the report have been evasive and self-serving. Bill English, the new Finance Minister in the minority National Party government, said the report would open up an "honest" discussion about incomes. But he failed to refer to the austerity programs introduced by his own government. In a subsequent speech, he dismissed the growing disparity between rich and poor as a matter of "perception".

Muriel Newman, an MP for the right-wing Association of Consumers and Taxpayers (ACT), used the occasion to push her party's campaign for the elimination of taxes and further cuts to welfare. She derided the report, saying that the "real story" was not the gap between rich and poor, but that the middle class had been "clobbered by the burden of taxes, red tape and excessive Government charges".

The comments by the Labour spokesman Steve Maharey are particularly significant. While criticising National government policies, he was quick to defend the 1987-1990 Labour government, saying that its economic reform program had been absolutely "necessary".

According to Maharey, the real tragedy was that the National Government had "not put in place the kinds of policies which would allow New Zealanders to prosper in the new open economy." Labour's commitment to preserve the "open economy," that is to pro-market policies, is crucial to its bid to gain the backing of big business in this year's elections.

Jim Anderton, leader of the Alliance, Labour's most likely coalition partner if it wins the election, said the report represented an "official declaration that the free market experiment has failed". Anderton, however, restricted himself to calling on the particular right-wing politicians--Roger Douglas, Richard Prebble, Ruth Richardson and Bill Birch--to apologise. He did not criticise the Labour Party position nor did he put forward any alternative economic plan.

The report points to the historic decline in the New Zealand economy--a tiny commodity-producing nation dependent on a narrow range of mainly agricultural exports. It shows that in the lifetime of the current generation, despite the fact that the per capita Gross Domestic Product in New Zealand has almost doubled, the ranking in per capita GDP terms has dropped from fourth among industrialised OECD countries in 1960, to 19th in 1993.