Inequality worsens in New Zealand ... but Labour rushes to appease big business

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New Zealand, cited internationally since the early 1980s as an example of the "success" of the market reform and privatisation program, now has one of the highest levels of income inequality among OECD countries, according to an official study released this month.

The report, by economist and statistician Des O'Dea, brings together recent research by government agencies and academics. It was commissioned by the Treasury, the agency most clearly identified with leading the assault on living standards on behalf of big business over the past 16 years.

The report finds that the wealthiest 10 percent of households acquired significant pre-tax, inflation-adjusted incomes between 1982 and 1996. Meanwhile, the incomes of households in the middle and lower income bands fell. Given that government policies over the period progressively reduced the tax take from the top income earners, the transfer of wealth to this social layer is even greater than these limited findings indicate.

According to the report, the increase in income inequality was far more marked in New Zealand than other countries such as Australia, Britain and the United States. Commenting on his findings, O'Dea observed that "New Zealand appears to have one of the highest levels of inequality in the OECD".

The broad picture that comes from the report is one of increasing social and economic polarisation, with the emergence of a widening gulf between a tiny, increasingly wealthy elite on the one hand, and a population experiencing an historic process of social reversal on the other. The large middle class that had grown up on the basis of the policies of national protectionism over the post-war boom is clearly collapsing. The report notes that while some "middle income" families had moved into higher income levels, many others had dropped out of the middle class into lower income groups, which are also losing ground.

The findings are not entirely new. They are based on a household economic survey carried out by the government statistician, Statistics NZ, initially published last year and criticised in official quarters at the time because it was claimed to have been based on too small a population sample. According to O'Dea, however, further work done since then, and based on a wider range of tax and census data, told the same story.

Among the more significant findings were those that showed that the mid-1980s brought an "historic break" in the growth of real incomes. Until then, a person at any given age in their life could expect to earn more than someone in a similar age group from a previous generation. This in no longer the case. For the great majority of people, declining standards of living are a permanent feature of life.

Also of note is that the steepest increase in social and economic inequality occurred during the late 1980s—that is under the 1984-90 Labour Government. This was the time when Labour, having introduced an initial wave of market "reforms" in its first term of office, extended its privatisation program and the downsizing of the state sector, while tearing up many of the minimal social protections fought for by previous generations of workers.

These developments opened the door to the subsequent initiatives taken by the Nationals, particularly the introduction of the Employment Contracts Act and the vicious cuts to social welfare in the 1991 budget, but by then much the damage to the social conditions of ordinary people had already been done. The fact that widening inequality did not diminish during the brief period of economic expansion in the mid-1990s is evidence that it was, according to this report, driven by the "structural changes" of the late 1980s, and not by fluctuations in the business cycle.

The report claims that between 10 percent and 25 percent of the increased inequality came from changes to the makeup of households, such as growth in the number of solo parent households on the one hand and in those without children on the other. Another 25 percent could be attributed to age mix, employment status and qualifications. For example, among upper income earners higher educational qualifications were reflected in increased earning capacity.

The causes of the remaining 50 percent rise in income inequality, according to O'Dea were "unexplained". What is known, however, is that real wages declined for the working and middle classes, while tax changes benefited the well-off. Between 1986 and 1996 the average household income after-tax rose a meagre 0.4 percent, with the increase overwhelmingly concentrated in the wealthiest households.

Over the same 10 years, the median household after-tax income fell by 0.7 percent a year, which suggests that those at those on lower incomes fell away most sharply.

O'Dea and Treasury head Alan Bollard both tried to downplay the significance of the findings. O'Dea claimed it would be an “oversimplified reaction” to say the rich had been getting richer and the poor poorer, because people often moved between one income band and another over the course of their lives. Bollard, for his part claimed the Treasury “did not have a view on the desirability of a less even income distribution structure”. This, he said was a “policy issue for government”. O'Dea, taking a diplomatic each-way bet, was forced to admit that while there had been “winners and losers”, the overall picture “should be a source of concern for policy makers”.

Even as the report was being released, however, the “policy makers”—namely the business and political leaders—were already making it clear that they intend to deepen and extend the attacks on living standards sustained under governments of all persuasions since 1984.

By engineering an orchestrated campaign over a record monthly decline in “business confidence”, corporate spokesmen gained undertakings from the Labour Party-Alliance coalition government that recently-announced policy initiatives, designed to appease the pent-up frustration of working people, will be modified or reversed. The business campaign was bolstered by a dramatic slide in the New Zealand dollar, which had dropped from US 51 cents to US 46 cents since the government was elected last November. Economic commentators claimed that overseas and local investors now regarded New Zealand as a poor investment risk.

The main measures specifically targeted by employers are the return of Accident Compensation to a single state-owned provider, following the earlier privatisation of this scheme by the previous National Party government; sections of the Employment Relations Bill; and the introduction of paid parental leave for workers for employees. Other objections surround the recent small increase to the tax rate for top income earners and a government bailout of the arts sector, needed in particular to rescue the bankrupt national symphony orchestra.

In themselves, none of these measures offered, in any respect, a serious threat to the interests of big business. The return of Accident Compensation to state coverage was always accompanied by promises from Labour that the average levies paid by employers would in fact be lower than under the private sector schemes. While the Employment Relations Bill sees the return of collective bargaining as opposed to the widespread imposition of individual contracts, the Labour-Alliance legislation is based on the use of the union bureaucracy to police these agreements in order to keep wage claims to a minimum. The promised introduction, for the first time in New Zealand, of very minimal parental leave provisions, was accompanied by promises from Labour that the cost would be born by taxpayers, not, as the Alliance had initially proposed, employers.

Nevertheless, even these measures have proved to be too much for investors. After only six months in office, Labour and the Alliance have quickly demonstrated their readiness to enforce the demands of business. Finance Minister Michael Cullen, having already identified the government as “fiscally conservative”, has held what the press described as “intimate gatherings” with business leaders to reassure them that the government was “listening” to them. “We want to be a government that moves forward with business, not one that watches indifferently from the sidelines,” Cullen told a business group.

The “left wing” Alliance has also bent over backwards to assure business interests of its loyalty. Deputy Prime Minister and Alliance leader Jim Anderton pointed to the government's regional development strategy and provision of financial handouts as signs that its policies would be supportive of the “fragile” business sector. Associate Minister of Labour Laila Harre argued that the parental leave provisions would be “good business”.

Accordingly, the passage of the Employment Relations Bill through the parliamentary select committee process has been slowed to incorporate further proposed amendments by the Employers Federation. Among these will be changes to the clauses which would have given “dependent contractors” access to minimum wage and paid holiday provisions; changes regarding directors' liability over business failures; and reduced requirements for companies to open their financial records to union negotiators. The Council of Trade Unions has agreed that many of the bill's provisions need modifying for purposes of “clarification”.

In addition, Prime Minister Helen Clark has promised business leaders that major proposals that implied additional costs on business—specifically the parental leave and an extension of the Holidays Act—are now on hold indefinitely, and will probably not be introduced in this term of office.