The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington

POLICY Quarterly

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Unfinished business: gender and inequality

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VICTORIA UNIVERSITY OF WELLINGTON TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI

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Editorial Note

This *Policy Quarterly* brings together two major, interconnected, abiding and still unresolved concerns: the inequalities faced by women and the maldistribution of wealth. Following the neo-liberal era, both are forcing themselves back to the top of the international policy agenda. This issue canvases aspects of their status, explanation and policy implications in New Zealand.

The Ministry of Women's Affairs (now the Ministry for Women) turns 30 this year. What has changed for New Zealand women over the last three decades? Then-Prime Minister David Lange hoped the Ministry would do itself out of a job within twenty years – but there is still considerable 'unfinished business'.

Prue Hyman reviews gender trends in employment and pay rates, and challenges orthodox arguments for accepting the widening differentials in labour market incomes. She concludes that increasing inequalities are not economically justified, and disadvantage women, Māori, and other ethnic groups and argues for stronger policy intervention.

Washington et al. find progress towards gender equality in the Public Service – traditionally seen as a 'safe haven' for women's employment – is slowing. Disparities remain in terms of seniority, occupational segregation, pay and career progression opportunities.

Most sole parent families are headed by women. Their poverty rates are five times those of two parent families. Dwyer's analysis finds policy settings related to employment, education, childcare and family support fail to cater for the time involved in caring for children single-handed.

Violence remains a part of many women's lives. The research of Wilson et al. shows the fatal consequences of practices for investigating intimate partner violence, which demonstrate limited understanding and competency concerning the gendered nature of violence, in our administrative services.

Does this mean that the Ministry for Women has failed? Simon-Kumar notes that the ministry has no statutory monitoring function or levers to ensure gender issues are considered across government. Its influence has been patchy, reflecting factors beyond its control such the interest and seniority of ministers and contradictory political discourse, in particular neo-liberalism.

Reducing poverty and inequality are key challenges facing New Zealand. These papers show that gaps in income and assets between women and men and between different ethnicities, are influenced by gendered norms, as well as policy and practice that reflect them.

Women have been told to 'step up' and 'lean in' in the workplace, and to 'step out' of violent relationships. Women have indeed taken leaps to improve their education and employment prospects. But choice is a relative concept and women still carry the bulk of unpaid work responsibilities. Choices are particularly limited for women parenting on their own, with little market income, or living with violence.

Public policies must add value to the lives of New Zealanders and be based on the realities of how disadvantage and social norms impact on different population groups. Greater attention to achieving gender equality is needed across the whole of government. This means strengthening capabilities in gender analysis, systems thinking, concerted action on multiple fronts, and commitment to a more equal future.

The 30th anniversary of the agency set up to achieve gender equality is a perfect time to design what that future might look like.

The remaining papers on inequality in New Zealand are sparked partly by discussion arising out of publication of Thomas Piketty's *Capital in the Twenty-first Century* at an IGPS seminar in 2014.

Bertram looks at income distribution trends noting they have been imported - along with a neo-liberal policy stance - from the global economy, hence relatively limited policy freedom for government.

Easton looks at the pre-tax personal income shares of top income groups in New Zealand from 1936-7 to 2012. There is little evidence of a major surge after 1981 in inequality of pre-tax market incomes. His following article, however, looks at after-tax incomes and shows dramatic increases in after-tax income and shares of total after-tax income for those on top incomes. These increases were due to policy changes in relative tax rates.

Morrison asks, 'Who Cares about Income Inequality?' Data from World Values surveys show that New Zealanders do care about income distribution and redistribution and the role of government but vary widely regarding the acceptability of inequality and redistribution policy.

The relative decline in labour share since the 1980s, factors such as intensified international financialisation and the implications for New Zealand are explored by Bill Rosenberg. Without countervailing policy measures, the owners of capital and strategically-positioned employees or self-employed are winners with most wage and salary earners, losers.

Chapple et al. examine wealth inequality within the post-baby boom generation wherein there is almost as much wealth inequality as in the New Zealand population overall.

In the final paper in this issue, Petrie, Brown and Snively challenge the views expressed by Unsworth on the Lobbying Disclosure Bill published in the previous *Policy Quarterly*.

The matters discussed in these papers are of enormous import for New Zealanders now and in the future. Each, separately and together, points to unfinished business. We hope that by bringing them together, this *Policy Quarterly* contributes to recently revived debate.

Máire Dwyer,
Sally Washington,
Geoff Bertram and
Bill Ryan.
Editors

Prue Hyman

Is Active Intervention Still Needed to Improve the Position of Women in the New Zealand Labour Market? If so, what can be done?

Substantial differences in employment and occupation patterns, levels of seniority and earnings between men and women remain in the New Zealand labour market despite considerable narrowing of the gaps favouring men. The extent, if any, to which remaining differences amount to discrimination is controversial. Interpretations vary along many dimensions, including political persuasion. With women's educational achievements having surpassed those of men on many measures, such as the proportion of those gaining a first degree, some argue that equal employment opportunity (EEO) has been achieved and discrimination against women no longer exists. However, feminist economists show how economic systems and policies still involve substantial gender inequities, with indirect discrimination common inside and outside the labour market, together with greater constraints on women's choices. Women continue to do substantially

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more of the important household and caring work involved in bringing up children and for others needing assistance, reducing their average money income and paid participation. Inequalities between different groups of women and men also continue to be of concern.

Inequality and child poverty are currently major issues in New Zealand and overseas, with the macroeconomic costs of inequality now clearly recognised by international agencies such as the International Monetary Fund (Ostry, Berg and Tsangarides, 2014). Ostry et al.'s results show that countries with lower levels of net inequality on average experience higher and less volatile growth, with the costs of redistribution policies outweighed by the benefits.

Kate Wilkinson and Richard Pickett's book on income inequality (2009) and Thomas Piketty's on both income and wealth inequality (2014) have raised the profile of the debates on causes and consequences, although gender was not a major focus, particularly in Piketty. The same is true of New Zealand's most prominent recent book on inequality (Rashbrooke, 2013), although my chapter in the New Zealand collection discussing Piketty raises gender issues (Hyman, 2014). Piketty's work is a theoretical and empirical analysis of wealth distribution and ways of modifying it though taxation, rather than an analysis of labour market inequality (Wade, 2014). Nevertheless, top salaries are rightly receiving critical scrutiny by social justice groups, with Piketty himself commenting, ironically, that 'It is only reasonable to assume that people in a position to set their own salaries have a natural incentive to treat themselves generously, or at the very least to be rather optimistic in gauging their marginal productivity' (Piketty, 2014, p.332).

Questioning the need for the observed wide and widening differentials in labour market incomes is less common. But the simple marginal productivity theory of labour demand is challenged by heterodox economists, not only in a gender context (Hyman, 1999). Increasing inequality of outcomes is a major element in the argument that EEO policies are insufficient. 'The rationale for prioritising equality of opportunity over outcomes bears little scrutiny. Research shows children of wealthy parents, for example, have far wider market opportunities than children of poor or middle-class parents' (Wade, 2014, p.169).

These different perspectives between orthodox and heterodox economists underlie arguments for less or more intervention in labour markets, which are never totally free but subject to law, regulation, and policies of various kinds. This is the main dichotomy discussed in this article, with a focus on gender earnings differences. The discussion requires, firstly, a brief analysis of women's position relative to men in the labour market generally, which is followed by more detailed material on gender earnings gaps. The article then looks briefly at weak interventions to improve the position of women; this is followed by more extensive treatment of stronger interventions. This covers both general measures, principally the minimum code and the living wage, and gender-specific measures, notably equal pay for work of equal value. In that area, the article concludes with discussion of the current court case testing the Equal Pay Act.

In the June 2014 quarter the unemployment rate for women was higher at 6.4% than the male rate of 4.8%, and had dropped less over the previous year.

Women in paid work: a brief summary

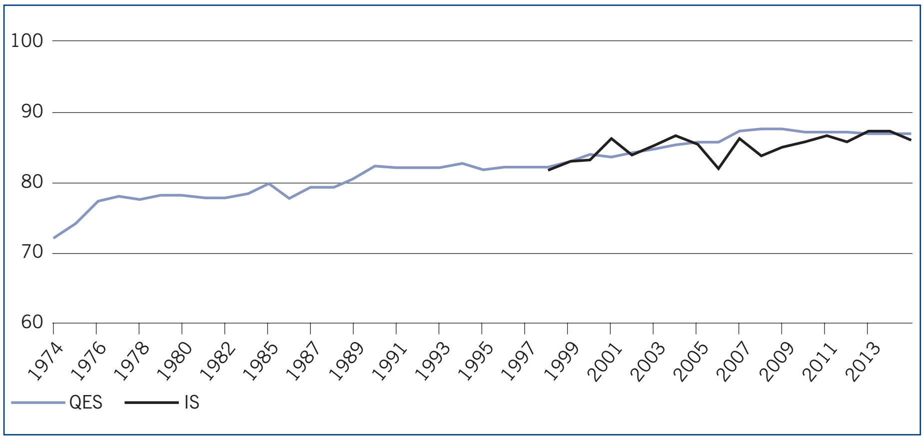
New Zealand's labour force participation rates continue to be higher for men than for women, largely due to women's ongoing greater responsibility for unpaid and caring work, supplemented by the greater longevity of women. This reduces women's overall rate, since women on average are over-represented in the post-retirement age groups. However, participation is increasing rapidly in these older age groups, with about 15% of women aged 65 and over and 25% of men aged 65 and over employed in the first quarter of 2014, up from 2% and 8% in the mid-1990s (Callister, 2014). Overall, in the June 2014 quarter the Household Labour Force Survey shows rates for the 15-plus population of 74.9% for men, against 63.1% for women. This includes all those in paid work for one hour a week or more, with many, particularly women, working low numbers of hours. One third of women worked part-time as against 13.1% of men, so women constitute 75% of all part-timers.

Much part-time and some full-time work is insecure; this includes, for example, casual, fixed-term, temporary employment agency and seasonal work. The New Zealand Council of Trade Unions' detailed discussion of insecure work (NZCTU, 2013) reported that 70% of fixed-term and 60% of casual workers were women, with these predominant in female-dominated low-paid occupations and industries such as care work, retail, hospitality and other services.

In the June 2014 quarter the unemployment rate for women was higher at 6.4% than the male rate of 4.8%, and had dropped less over the previous year. The under-employment rate (those seeking more hours or full-time work) was also higher for women, at 6.1% against 2.6%.

Gender horizontal occupational and industrial segregation remains at high levels: for example, the manufacturing and transport sectors were just under 30% female at the 2013 Census, compared with education (74%) and health (82%). Around half of both women and men work in occupations where at least 70% of workers are of their gender. Low-paid work in caring, cleaning and clerical roles continues to be predominantly female, with Māori and Pacific women particularly concentrated in low-paid occupations. Trades and apprenticeships continue to be male-dominated. On vertical segregation (women under-represented in high-paid positions), change is slow. For example, in 2013, of 109 private sector companies listed on the New Zealand Stock Exchange, 12% of the directors were women (see also Human Rights Commission, 2012b). Both vertical and horizontal occupational segregation affect earnings and the gender gap, the subject of the rest of this article.

Figure 1: Gender ratios, 1974-2014, average hourly earnings from Statistics New Zealand's Quaterly Employment Surveys and Income Surveys



Source: New Zealand Statistics quarterly employment and income surveys; graph sourced from http://cevepnz.org.nz/Gender%20pay%20gap/gender%20pay%20gap.htm

How big is the gender gap in earnings: different measures and analysis

The gender pay gap is usually expressed as a single percentage measure by which women's pay falls short of that of men. This has the advantage of simplicity, but in reality there are many correct figures, with different coverage. Hourly, weekly and annual earnings and income gaps for wage and salary employees or all in the labour force are quoted, with different employment coverage (e.g. all, or full-time only) and measures of central tendency (median or average/mean) and different sources of data (Quarterly Employment Survey, income statistics, Census, tax statistics).

Weekly and annual earnings show wider gender gaps than hourly earnings, due to women's preponderance in part-time work and more limited access to overtime due to greater family commitments – not necessarily an unconstrained choice. Average earnings also show a wider gap than median earnings (50% earn above the median and 50% below), since the top tail of high earnings have a greater impact on the mean, with men disproportionally represented in such high earnings.

The New Zealand Income Survey shows that in the June quarter of 2014, women wage and salary earners' hourly rate averaged $24.70, 86.1% of the $28.70 mean for men. This 13.9% gap was greater than the 12.7% gap a year earlier, although year-to-year fluctuations need to be treated with caution given issues of sample size and accuracy. Longer-term trends are more reliable, and for several years the gap has been around 13–15%. Certainly, there has been no clear overall trend towards its disappearance. Only the 1973–78 period of implementation of the 1972 Equal Pay Act saw the gap significantly narrowed (by about five percentage points), while the subsequent 36 years have seen slow progress and fluctuations.

The Ministry of Women's Affairs' comment on New Zealand Income Survey includes:

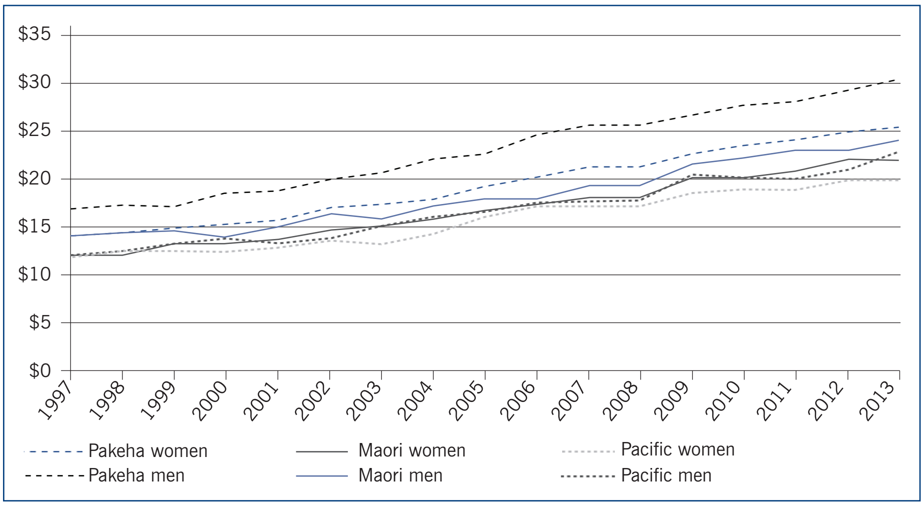
> The New Zealand gender pay gap is 9.9 percent … The gender pay gap has been reducing over time. However, any gender pay gap is unacceptable and improving women's economic independence, which includes reducing the gender pay gap, is a priority … the causes of the remaining gender pay gap are complex and there are no straight-forward solutions. Closing the gap requires sustained action over time, and collective action from a range of players including workers, employers, careers advisers, business leaders and employee groups as well as the Government. (Ministry of Women's Affairs, 2014a)

Interestingly, the ministry's comments also include: 'The median is used because it is less likely to be skewed by very high wages' (Ministry of Women's Affairs, 2014c). As the higher gap in the mean is due to there being more male chief executives, directors, partners in professional firms and men in other top jobs, a phenomenon which the ministry is committed to changing, the comment thus appears a shade contradictory.

The government has at times quoted the gender gap in median hourly earnings for full-time workers only (those working 30 hours or more per week). This is lower again at 6% in the June 2014 quarter, with the main reasons for the difference compared with all earners being the high proportion of women part-time workers, together with much lower hourly earnings for part-time work overall. Median hourly earnings for part-time work were $16.96, as against $23.44 for full-time work. Removing part-time workers from gender gap calculations is therefore misleading and inappropriate.

When weekly rather than hourly earnings are considered, the gaps widen even for full-time workers, at 14.3%/18.4% in the June 2014 quarter for the median/mean. For average earnings of this group it was 18.4%, again very much greater than for hourly earnings. With full-time work defined as 30 hours or more, male full-timers on average work more hours than women. When full- and part-time work are combined the gap widens to 25.1%. For actual purchasing power, these wider gaps are the most relevant. For total weekly personal income from all sources, men constitute over two-thirds of those in the top 20% of incomes ($1190 plus per week), while of those with earnings

Figure 2: Average hourly earnings, main ethnic groups, income survey 1997-2014



under $201 per week in 2013, 60% were women.

While women overall continue to be disadvantaged in the labour market, the disparities among women (and men) on the basis of other factors, particularly ethnicity, age and disability, are even more marked. Māori and Pacific men and women both earn considerably less on average than their Pākehā counterparts, with little or no improvement in these relativities over time, as Figure 2, produced for the Campaign for Equal Value, Equal Pay by Linda Hill, clearly shows (CEVEP, 2014). While both tertiary education rates and self-determination are increasing rapidly for these groups, it will take some time to feed through to substantial improvement in the earnings gaps.

Minor interventions

The orthodox economics approach to the remaining gender gaps is that they are a result of individual and household choices, and little or no intervention is needed in market-determined outcomes. The remaining gaps should disappear through continuation of current trends, except the part which results from women's greater involvement in unpaid work. At most, encouragement to reduce gender gaps is sufficient, through more education, training, and advice to women themselves and to employers. An example of this approach is a New Zealand Institute of Economic Research report to the Ministry of Women's Affairs (NZIER, 2013) which points to the narrowing of education, earnings and workforce duration differences by gender. It argues that women's attitudes and decisions are now the issues which the Ministry of Women's Affairs should consider, totally ignoring social norms and feminist critiques of economic and social systems. There is no mention at all of the possibility of discrimination, of undervaluation of female-dominated occupations, or of issues about how skills are defined and measured.

On vertical segregation, there is a large literature encouraging women in professions and business to be more assertive in interviews and salary negotiations, to improve curricula vitae and ambitions – in fact, to behave more like the stereotype of men. Employers are urged, rightly, to realise that diversity of leadership on average has been shown to improve the performance of business, and are rewarded for strong EEO and diversity policies. There are many groups active in the area of increasing the proportions of women in management, on boards and at the top of professions, from the EEO Trust to the Ministry of Women's Affairs and others, using exhortation, advice and prizes. Clearly this is unobjectionable, although the initiatives, even if successful, will not necessarily improve the position of the many lower-paid women.

Although encouraging women into leadership positions has been a major focus of the Ministry of Women's Affairs in recent years, a second focus on economic independence for women is welcome and aimed at lower-paid women. A recent paper suggests ways of improving the economic independence of women with low or no qualifications, women who are not in education, training or employment, and Māori and Pacific women (Ministry of Women's Affairs, 2014b). While it makes some positive suggestions, including recognition of the need for adequate child care policies and cultural responsiveness, the paper largely glosses over other problems for these groups, particularly sole parents, who are disadvantaged by sole care of children, insecure work, and the difficulties of combining paid work and benefits (Dwyer, 2015). It notes the gendered nature of labour markets, but, like the New Zealand Institute of Economic Research paper, fails to problematise the low-paid nature of much of the female-dominated work available to these groups unless they can enhance the human capital valued by the market. The emphasis on formal qualifications can be seen as in part credentialism, with a lack of acknowledgement of the undervalued skills which many women involved in household and caring work have already acquired.

More active interventions

Those who believe that the labour market and the economy generally exhibit structural discrimination based on gender, ethnicity, class and other relevant population characteristics argue for more significant policy interventions to modify the market than those considered so far. As earlier observed, the market is, of course, never totally free. The general economic and social situation and policy climate has more impact on the position of disadvantaged groups than specific interventions to assist these groups. For example, the globalisation and deregulation policies of the 1980s and beyond, including labour market power being shifted from unions towards employers, helped increase both inequalities within countries and outsourcing to the cheapest labour countries. Those most adversely affected were lower-earning employees, with women and ethnic minorities over-represented.

The sharp reduction in unionisation and in collective, and especially multi-employer, bargaining, under the 1991 Employment Contracts Act was particularly strong for women employees, and levels increased only marginally under later legislation. High levels of female unionisation and centralised bargaining are strongly associated in cross-country comparisons with a lower gender pay gap and lower differentials generally, with collective coverage improving the situation of lower-paid groups (Whitehouse, 1992). With this reduction, the minimum wage and other minimum code provisions become especially important. In New Zealand the relativity of minimum to average wages has fluctuated widely over the years, with extremes of 83% initially (in 1947) and 30% in 1984, with the percentage commonly increasing to around the low 50s under Labour administrations and falling to the low 40s under National (Hyman, 2004). Minimum wage rates have been raised more since 1999 under Labour-led governments than under National-led ones, while National has reintroduced lower youth and training rates.

Space precludes extensive discussion of other areas of the minimum code (for its links to gender equity, see Hyman, 2004), but it is clear that its provisions have both general and EEO implications. The extension of the period of paid parental leave announced in the 2014 Budget from its current 14 weeks to 16 weeks in April 2015 and 18 in April 2016, together with some extension in coverage, is positive for gender equity. However, the 26-week period proposed by Labour would better meet international standards, and real needs in initial bonding and breastfeeding. It is unclear whether the 90-day employee probation period's main impact has been job creation or exploitation. Human Rights Commissioner Jackie Blue (formerly a National MP) criticised the 2014 Employment Relations Amendment Act, labelling New Zealand's labour market as already one of the least regulated in the world and arguing that the act 'has the potential to put vulnerable workers in a more precarious position'. The changes to Part 6A of the 2000 Act, originally enacted to ensure jobs were protected in industries where restructuring was common, exempted such workplaces with fewer than 20 employees. Noting the sectors likely to be affected, she pointed out that '[t]hese workers are predominantly women, many of whom are Māori, Pacific peoples and other ethnic minorities' (Small, 2014).

An important recent initiative to improve the situation of lower-waged workers is the campaign for employers to pay a living wage, above the mandated minimum wage. 'The idea of a living wage is that workers and their families should be able to afford a basic, but decent, life style that is considered acceptable by society at its current level of economic development. Workers and their families should be able to live above the poverty level, and be able to participate in social and cultural life' (Anker, 2011, p.5). This international movement was slow to take off in New Zealand, partly because, in the past, the floor on pay and conditions set by the minimum code was seen as reasonably adequate, but this is no longer the case (Hyman, 2012). The living wage campaign seeks voluntary adoption, not legislative action, and has strong support from many community, church, union and feminist groups. In the United Kingdom large numbers of local government authorities and considerable numbers of private sector firms have become living wage employers, while Wellington City Council has become the first council here to move in that direction. (For extensive resources on the economic and social case for the New Zealand living wage, the campaign and research see www.livingwage.org.nz.)

The Ministry of Business, Innovation and Employment estimated in 2013 that 84,800 workers were on the minimum wage and 573,100 workers on less than the living wage, then calculated by the New Zealand campaign research to be $18.40 an hour (increased to $18.80 in 2014). A large proportion of these workers are women, with Māori and Pacific also being over-represented.

Economic arguments from efficiency-wage theory support a higher-wage economy, based on its capacity to increase productivity rather than productivity gains having to come first (Altman, 2012). There is substantial evidence that paying slightly above the market by, for example, committing to a living wage can generate loyalty and lower turnover and its costs in recruitment and training. This can improve the quality of work and the responsibility taken by employees. Labour is not simply a cost, as the basic model assumes, but a factor of production and an investment.

Unions, academics and feminist groups have long argued that New Zealand's 1972 Equal Pay Act does cover equal pay for work of equal value, despite its somewhat arcane wording, ...

Pay equity/equal pay for work of equal value

While I have argued that general policies have more impact on the position of women than targeted ones, ongoing horizontal occupational segregation raises the need to consider whether women in these types of jobs are remunerated fairly. Reducing horizontal and vertical segregation is a slow process, so will not alone close gender earnings gaps or be sufficient for the labour market to display gender equity.

The equal pay for work of equal value principle (often now known as pay equity) is broader than equal pay for identical work. It requires work assessed as needing similar overall levels of skill, responsibility, effort and working conditions (in total, not necessarily on each component separately) to be paid equally. It is mandated by the International Labour Organization (ILO 100) and by the United Nations Convention for the Elimination of Discrimination Against Women, both of which New Zealand has ratified. Worldwide, female-dominated work has historically been undervalued by decision-makers, the market, and in bargaining situations. Skill definition and assessment are partly a social construct, with skills involved in many jobs undervalued or ignored. Gender-neutral job evaluation systems have been devised to remedy this undervaluation and negate overly-simple market determination arguments.

Implementing equal pay for work of equal value principles is one such intervention which could reduce the undervaluation of female-dominated work.

The latest attempt to secure equal pay for work of equal value: testing the 1972 Equal Pay Act

Unions, academics and feminist groups have long argued that New Zealand's 1972 Equal Pay Act does cover equal pay for work of equal value, despite its somewhat arcane wording, but it was not routinely interpreted in this way (Hill, 1993; Hyman, 1994; Coleman, 1997). The act had not been tested since a failed Clerical Workers' Union case in 1986, and those supporting pay equity turned to securing new, clearer legislation, containing specific mechanisms, as well as using collective bargaining with some success. Labour-led governments from 1999 progressed pay equity somewhat in the public sector, health and education, through the Department of Labour's Pay and Employment Equity Unit. Abolished by the 2008 National-led government, the unit's research and evaluation tools remain helpful in the current case. In addition, there is theoretically at least, an ongoing commitment by the current government to pay equity (see Ministry of Business, Innovation and Employment, undated).

In October 2014 the Court of Appeal dismissed the Terranova Homes and Care Ltd appeal against an Employment Court judgment favourable to plaintiff Kristine Bartlett and her union, the Service and Food Workers' Union. The union argued that Bartlett's (and others') hourly wage, at that point \$14.46, was based on undervaluation of this female-dominated caring work, convincingly demonstrated in the Human Rights Commission's report Caring Counts (Human Rights Commission, 2012a). The Court of Appeal stated that the Employment Court's answers to key questions were correct in law, with the decision 'driven by the language and purpose of the Act itself'. With the 1986 case not well argued, the judgment faulty and possibly only lack of resources preventing a successful appeal, the ongoing ability of the act to deal with equal value-based cases was reasserted where predominantly female jobs are concerned. The court ruled that it is not a defense against equal pay claims to find a few men in a female-dominated occupation who are paid as little as the (undervalued) women, and stated: 'We have reached the preliminary conclusion that the Act is not limited to providing for equal pay for the same or similar work … It may be relevant to consider evidence of wages paid by other employers and in other sectors. Further, any evidence of systemic undervaluation of the work in question must be taken into account' (http://www.courtsofnz.govt.nz/front-page/cases/terranova-homes-care-ltd-v-service-and-food-workers-union-nga-ringa-tota-inc-and-anor).

The difficulties involved in selecting comparators and evaluating the work were raised as a major problem by the employer, but the Court of Appeal referred to the Pay and Employment Equity Unit's work and rightly regarded the claims about workability as overstated. (In fact, there is considerable expertise available on this and many other aspects of pay equity: see also http://www.cevepnz.org.nz/.)

The Court of Appeal placed less weight on the bill of rights and the implications of our international obligations towards equal pay for work of equal value under ILO conventions and the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) than the Employment Court did. Nevertheless, these pieces of legislation and conventions, together with the climate in which they were implemented, strengthen the case. Over many years, comments by international institutions on New Zealand government reports on progress have criticised lack of action. For example, the relevant CEDAW committee in July 2012 called on New Zealand to 'effectively enforce the principle of equal pay for work of equal value, through establishing specific measures and indicators, identifying time frames to redress pay inequality in different sectors and reviewing the accountabilities of public service chief executives for pay policies' (quoted in McGregor, 2013, p.10).

A study by Judy McGregor of seven of New Zealand's reports to CEDAW documents its committee's increasingly strong adverse reactions as mechanisms for pay equity were eroded. Referring to *Caring Counts* and the 'greater mobilisation and visibility of low paid female carers as a result of strategic trade union intervention', McGregor notes 'a confluence of factors, including the demographics of ageing, the rise of the private sector aged care industry and its relationship to public funding, and a predicted global shortage of health care workers that will impact on New Zealand as elsewhere'. She suggests that 'the case for redressing political commitment and addressing low pay for low paid women workers, such as those in the aged care sector, then becomes indisputable' (McGregor, 2013, p.14).

The employers' organisation in the industry, the New Zealand Aged Care Association, has publicly accepted that their care workers deserve a pay increase, and in particular to earn as much as those doing similar work in the public sector, where DHB carers' pay is around $2–$3 per hour more. However, the association claims that there is no fat in the system, even where reported profits are high, and that any increase must be matched by more government funding. Meanwhile, Health Minister Jonathan Coleman refused any responsibility, arguing that providers must decide how they allocate their money. Employers and government each pass responsibility on to the other, while the carers suffer, with pay below their value and little above minimum wages, despite the considerable skills needed. The schedule of the employer's requirements of caregivers submitted with the case was highly impressive, as is the commitment to their elderly residents displayed by the vast majority of carers, which had made them slow to take any strong action to improve their own position. On the cost/affordability concerns about a pay increase, Employment Court chief judge G.L. Colgan pointed out that similar arguments were made against the abolition of slavery. Moreover, simply levelling up the private sector pay levels to those of caring work in the public sector is important, but probably insufficient. It deals only with the very direct inequity of lack of equal pay for almost identical work, but does not tackle the issue of the claimed overall undervaluation of caring work.

How the case will proceed from here is by no means clear. The Court of Appeal has given a steer for the Employment Court to establish, under section 9 of the Equal Pay Act, principles for implementation of its provisions, something that has never occurred in the Act's 42-year history. The next step is likely to see the parties making submissions to the court on such principles, including procedures for choosing comparator non-female-dominated jobs for any predominantly female job under consideration. Meanwhile, more similar cases have been filed by the Service and Food Workers' Union and the Public Service Association, while the New Zealand Nurses Organisation has also filed claims for over 800 members.

Conclusion

This article has contrasted two divergent analyses of the economy and labour market, with the orthodox approach to market rewards accepting wide and increasing labour market differentials as justified returns to skills and with gender gaps seen as inevitable within that framework, though reducing as education and skills gaps narrow. Heterodox approaches, including those of feminist economists, by contrast, emphasise the ways in which power imbalances and historical and social factors and norms allow increasing inequalities which are not economically justified and which disadvantage women and ethnic minorities. Applying this analysis to earnings differences between women and men, I conclude that stronger rather than weaker interventions are needed on the grounds of both equity and efficiency. Implementing equal pay for work of equal value principles is one such intervention which could reduce the undervaluation of female-dominated work. The Court of Appeal has agreed in principle that the 1972 Equal Pay Act can still be used to take claims of this sort, and the impacts of this decision will be tested in the near future.

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Sally Washington, Martin Peak and Katherine Fahey

Engendering Diversity
women's employment in the public service

The case for diversity in the workforce is well rehearsed. It has shifted over the years from arguments based on human rights and equality to a business case. A growing body of research suggests that diversity in senior management makes for better decision-making and is generally good for business, whether that business is in the public or private sector. Recent research covering 33,000 workers in 28 countries further suggests that employees who work in a strong climate of diversity and inclusion are three times more confident about their organisation's ability to perform than those who work in companies with low diversity, and that the level of organisational innovation in such companies is four times higher than in those with a weak diversity and inclusion culture (Wichert, 2014). Other research has shown that greater diversity in an organisation's workforce makes for enhanced customer responsiveness, and in the case of the public sector a means of enhancing the legitimacy of government activity (Battison et al., 2009).

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Figure 1: Gender jigsaw *Ensuring gender equality requires a system approach and understanding how the pieces of the puzzle fit together*

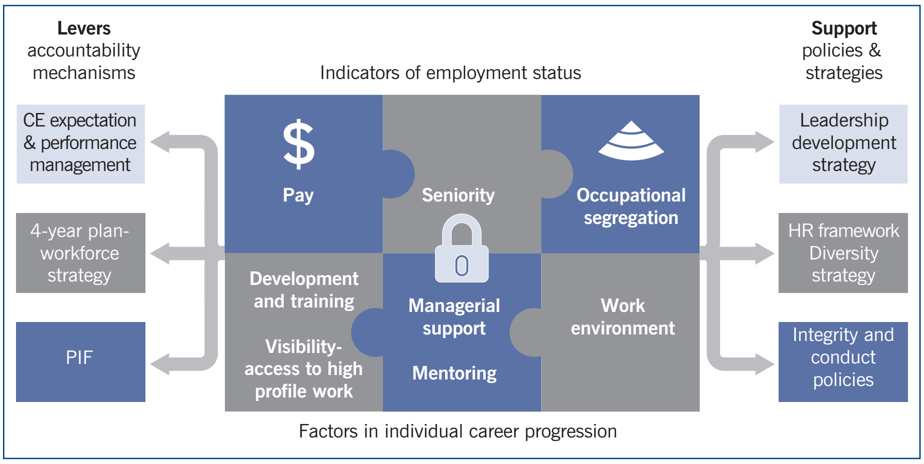
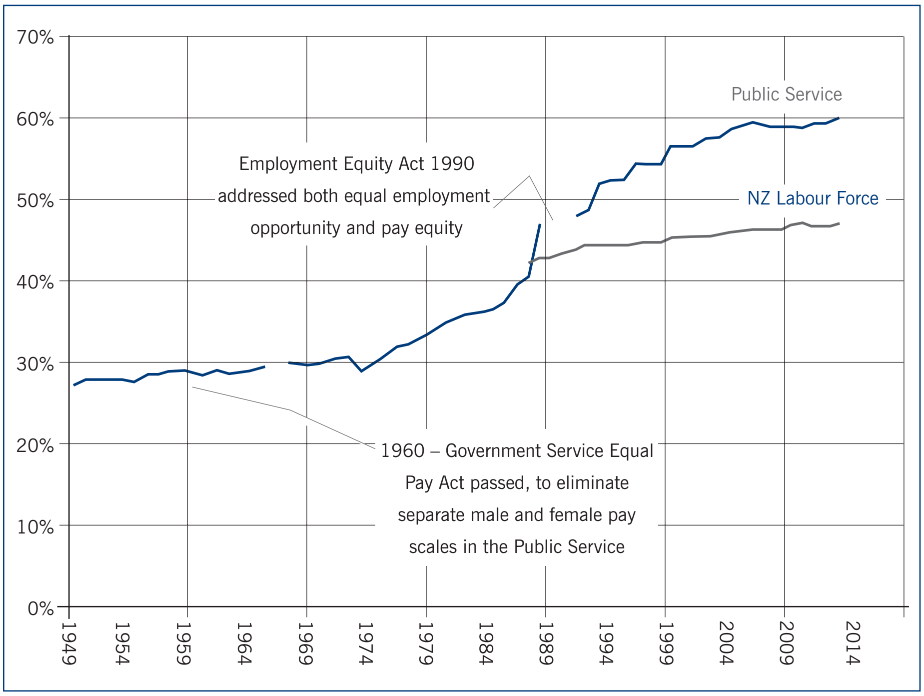


Figure 2: Females representation in the workforce 1949 – Present



A general goal of diversity can mask the differences between the various groups that have traditionally been disadvantaged in the workplace and hence the different strategies required to create a level playing field. This article concentrates on a subset of the diversity story: the state of women's employment in the New Zealand public service. The status and experiences of Māori and other population groups is not covered; inquiry into these groups is also warranted.

In 2000 the State Services Commission conducted the first Career Progression and Development Survey (CPS), primarily to investigate concerns of the then commissioner about the number and diversity of candidates, and in particular women, putting themselves forward for chief executive positions (State Services Commission, 2002). The survey explored public servants' perceptions of their work environment and their career progression opportunities and sought to uncover any specific barriers to women's career advancement. The survey found that women had similar career aspirations to men. The factors deterring them from seeking higher-level jobs – apart from clashes with responsibilities outside work – were a perceived lack of experience and confidence to put themselves forward. It was argued that giving women more access to work roles and high-profile projects – opportunities mediated by managers – would enhance their readiness for and access to more senior roles. The survey findings were said to serve as a 'benchmark for the future'. So, what has changed in the last 15 years?

The CPS was repeated in 2005 but then dropped. Despite not having the richness of the information generated through the CPS (quantitative and qualitative), we do, however, have significant gender-related workforce data collected through the State Services Commission's Human Resources Capability Survey (State Services Commission, 2014c) and its Integrity and Conduct Survey (State Services Commission, 2014d) that can be tested against the CPS benchmark. This article uses that data[1] to draw a picture of where women currently sit in the public service in terms of representation, occupation, seniority, pay, and perceptions of their career progression opportunities and work environment. We show that progress towards gender equality in the public service is slow, and may have plateaued. We argue that the relative autonomy of chief executives and their agencies – the vertical nature of the accountabilities inherent in our public management system and the variation between agencies this creates – may have detracted from policies to build equal opportunity *across* the public service workforce, and that a more system-wide approach to gender equality and other forms of diversity is required. We argue that the Better Public Services environment – with a greater emphasis on system-wide capability and a more joined-up approach to identifying and developing top talent – offers a window of equal opportunity and a chance to put gender back on the workforce development agenda.

Methodological framework

We use the 'gender jigsaw' framework shown as Figure 1 to describe the elements or indicators relating to women's employment in the public service. The boxes on the left describe the levers or accountability mechanisms where we would expect to see an emphasis on diversity if this is a system priority. The boxes on the right describe the strategies or policies required to enable and support gender and other forms of diversity.

Current state: the gender scorecard

Representation

Women's representation in the public service has doubled since the 1970s. Women now make up 60% of the public service workforce, compared with 47% in the New Zealand labour force overall (Statistics New Zealand, 2014a). Women's over-representation in the public service is the case in many countries, including the United Kingdom, Canada, and all Scandinavian countries (OECD, 2013).

Occupational segregation

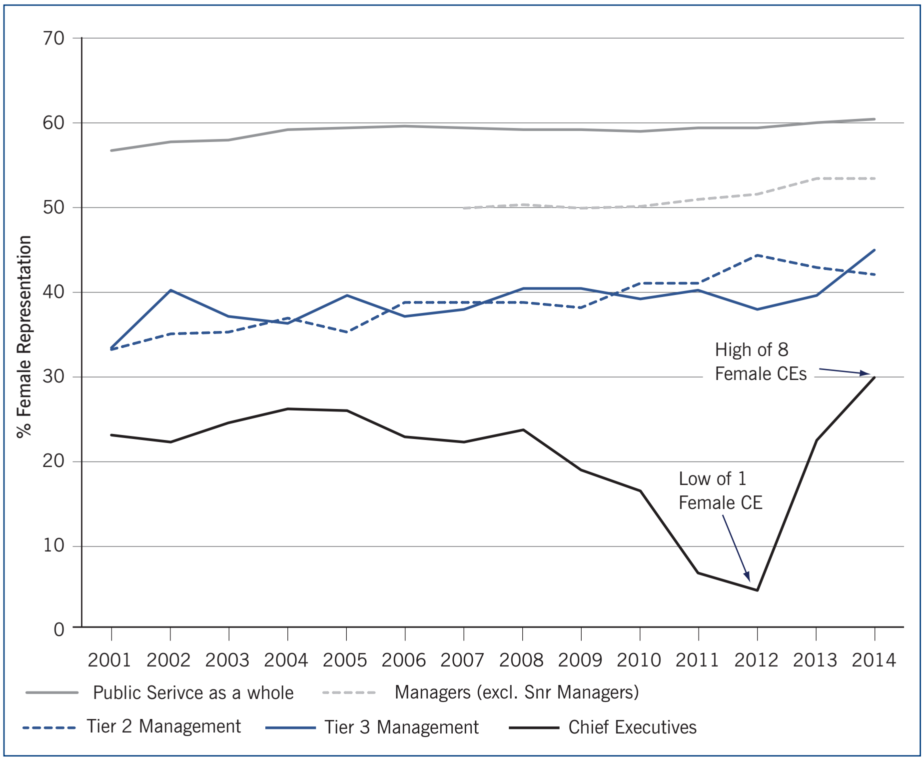
Despite increases in women's representation overall, occupational segregation has not changed significantly. Indeed, some female-dominated occupational groups, such as clerical, administrative and contact centre roles, are becoming more so. In the New Zealand public service, 81.2% of clerical and administrative workers are female (compared with an OECD average of 65%). Moreover, there is diminishing demand for these types of roles. The number of clerical and administrative staff has decreased by 20% over the last four years in the public service, a trend also in the wider labour market (Statistics New Zealand, 2014b). On the other hand, women's representation has not increased in occupational groups where the demand is likely to increase, such as ICT professionals, where fewer than a third of employees are women, a figure that has not changed over the last six years (see Table 1).

In the managerial occupational group, female representation has increased from around 40% in the early 2000s to 51% in 2014. The New Zealand public service rates well internationally in this regard: the OECD average is 40% (OECD, 2014). However, the trend in New Zealand, as in the UK and Australia, is one of gradual change and that upward trend is slowing. Moreover, while women are represented equally within management positions overall, as roles become more senior women's representation falls. While New Zealand women's representation in senior management rates among the OECD's best (second only to Poland), senior management positions continue to be male-dominated. Eight out of 29 chief executive positions are currently held by women, and in tier 2 management women hold 81 out of 181 positions. Women make up 41.5% of the top three tiers of management in the New Zealand public service, compared with just under 40% of top management roles in the UK (37.7% of the senior civil service) and the Australian federal government (39%) (Cabinet Office, 2014; (Australian Public Service Commission, 2014).

Table 1: Female representation in the public service, 2007, 2014

	% Female 2007	% Female 2014
Clerical and administrative workers	81.0%	81.2%
Contact centre workers	70.0%	77.0%
Social, health and education workers	76.7%	75.6%
Legal, HR and finance professionals	59.7%	60.8%
Information professionals	56.1%	59.7%
Policy analysts	55.9%	56.2%
Managers	47.4%	51.3%
Other occupations	38.9%	47.9%
Inspectors and regulatory officers	40.9%	44.9%
Other professionals not elsewhere included	36.5%	43.9%
ICT professionals and technicians	31.8%	31.9%

Figure 3: Female representation at different levels of heirachy in the public service, snapshot as at 30 June of each year



Pay: mind the gap

The gender pay gap remains real across the New Zealand public service. The pay gap has decreased only slightly over the past 15 years – from 17% to 14% – and has been stagnant at 14% for the last three years (State Services Commission, 2014c). By comparison, in the UK the pay gap across the whole civil service closed from 12.5% in 2010 to 9.9% in 2013 (Cabinet Office, 2014). Moreover, there is significant variation across New Zealand public service departments, with only one department at pay parity and several with pay gaps over 20% (Human Rights Commission, 2014). Men outnumber women by two to one in the ranks of public servants earning over $200,000 per annum (around 240 men and 120

Figure 4: Gender pay gap and future projection based on the rate of change over the last 15 years

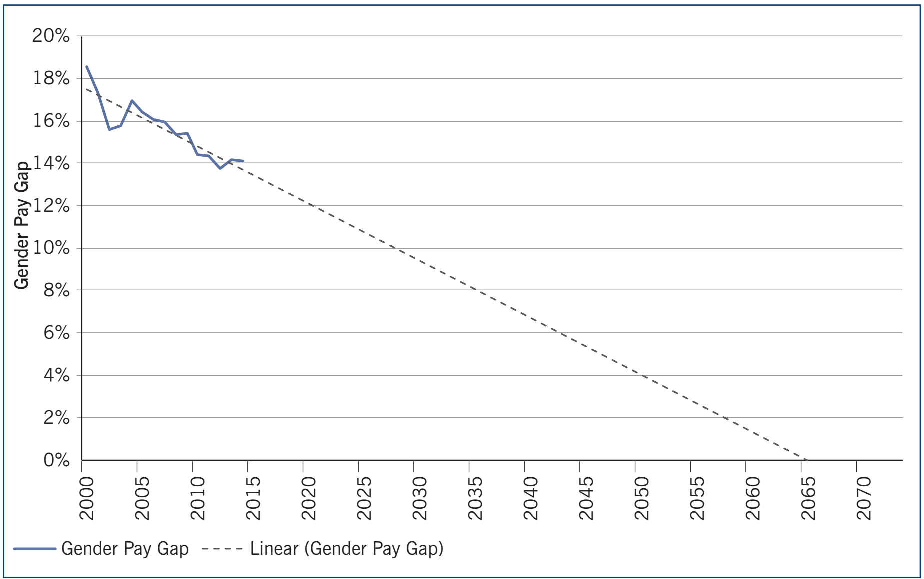
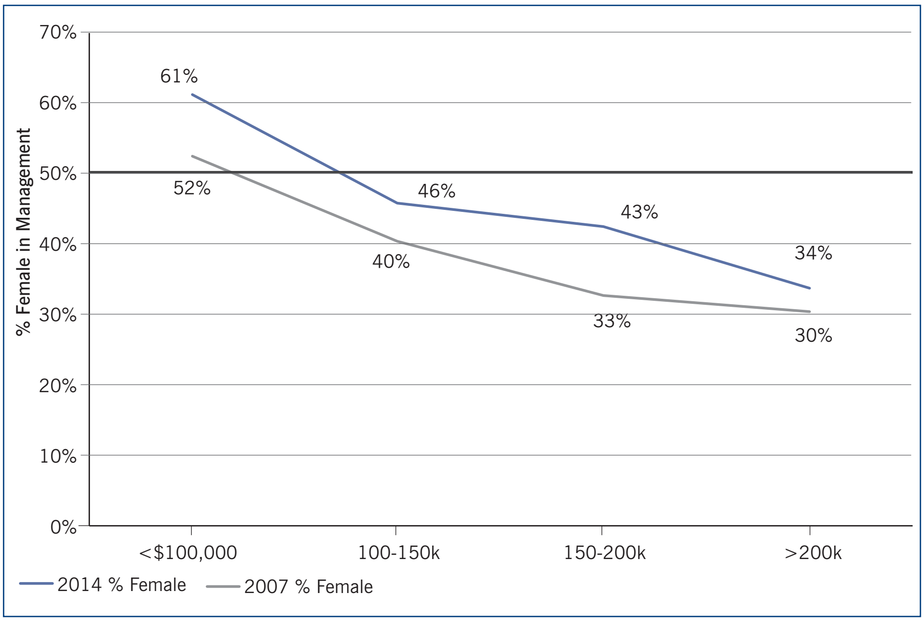


Figure 5: Female representation in management cut by salary groups



women). If the rate of change over the last 15 years were to continue, New Zealand would not reach pay parity in the public service until 2065 (see Figure 4).

The gender pay gap relates to a range of differences between men's and women's participation in the workforce, including occupation, seniority in their role, age, and the number of years they have been in the workforce. Time spent out of the workforce can negatively affect seniority and associated salary. However, the Human Resource Capability Survey 2014 report (State Services Commission 2014), shows that the largest factor in the size of the current gender pay gap is occupational differences. Women continue to be over-represented in lower-paid occupations and at the lower levels of other occupational groups. Moreover, even controlling for factors associated with the gender pay gap, five percentage points of the pay gap remain 'unexplained'. This part of the pay gap is usually attributed to unconscious (or conscious) bias (Committee for Economic Development of Australia, 2013).

Even within occupations, such as the policy workforce, there are gender-based pay gaps (see box).

Factors used to 'explain' the pay gap are often used to 'excuse' it, and can subsequently reduce the pressure to take action to reduce occupational segregation, support women to return to work following parental leave (and keep them connected while they are on leave), and enhance flexible working arrangements to enable women (and men) to balance their work and family responsibilities (Ministry of Women's Affairs, 2013).

Life/work balance and public service roles

The Career Progression and Development Survey showed that in 2000 more than three-quarters of public servants worked more hours than they were employed for; dissatisfaction was expressed with high workloads and a culture where people felt compelled to work extra hours. The long hours required of very senior jobs were a deterrent to potential candidates, especially women. We have no current data on hours of work and subsequent impacts on life/work balance, but anecdotal evidence suggests that the public service work environment is more, rather than less, pressured. Moreover, women continue to do the bulk of household and child care work. The most recent Statistics New Zealand Time Use Survey showed that women perform almost twice as much unpaid work as men (4.3 hours per day compared with 2.5 hours) (Ministry of Women's Affairs, undated). When looking at getting women into more senior jobs, we need to examine the attractiveness of the job as well as building the talent pool.

Career development: progression opportunities and work experiences

The 2013 Integrity and Conduct Survey revealed relatively poor perceptions of career progression opportunities across the public service. Fewer than half of public servants (44% of women and 46% of men) agreed or strongly agreed that 'There are good opportunities within my agency to progress my career' (State Services Commission, 2014d). Recent international research has suggested that the top three factors accounting for women's promotions are: critical job assignments (high-profile work, stretch assignments, being able to show what you're made of); networking opportunities (having access to and being visible to senior leaders); and personally seeking opportunities for new career options (Wichert, 2014). The first two of these factors are typically mediated by managers. As noted earlier, the CPS recommended that giving women more access to work roles and high-profile projects would enhance their readiness for and access to more senior roles.

While much research has argued that confidence is a factor in women not putting themselves forward for senior jobs – and women have subsequently been advised to 'lean in' (Sandberg, 2013) – results from the Integrity and Conduct Survey did not point to an ambition or 'shrinking violet' problem. Proportionately more women than men (100% of women and 96% of men) in tier 1–3 management roles responded that 'I am confident that I have the leadership skills to do my job'. Ambition and confidence, at those levels at least, does not appear to be a significant issue. The CPS showed no gender-based confidence barrier at the lower management level either. Confidence questions are not asked of less senior staff in current surveys, so we cannot verify whether that is still the case.

In contrast, the 2013 Integrity and Conduct Survey showed small but statistically significant[2] differences between women and men on a range of factors related to relationships with managers, development opportunities and perceptions of fairness at work. Women were less likely than men to agree or strongly agree that:

- my agency takes steps to develop its talented people (43%/47%);
- promotions and appointments to new jobs within my agency are generally based on merit (46%/50%);
- my manager treats me fairly and with respect (81%/85%);
- my manager gives me the support I need to do my job (75%/79%);
- I have opportunities to be innovative in my job (66%/70%);
- my manager encourages me to build my capabilities and skills for my long-term development (67%/69%).

It is encouraging to see overall high rates of agreement on issues related to managerial fairness and support. Over 80% of both men and women agreed or strongly agreed that their manager treated them fairly and with respect. We lack robust cross-agency data on access to development and training opportunities and information on access to coaching and mentoring, which are also key factors associated with getting ahead in the workplace.

From EEO to diversity – central to departmental focus

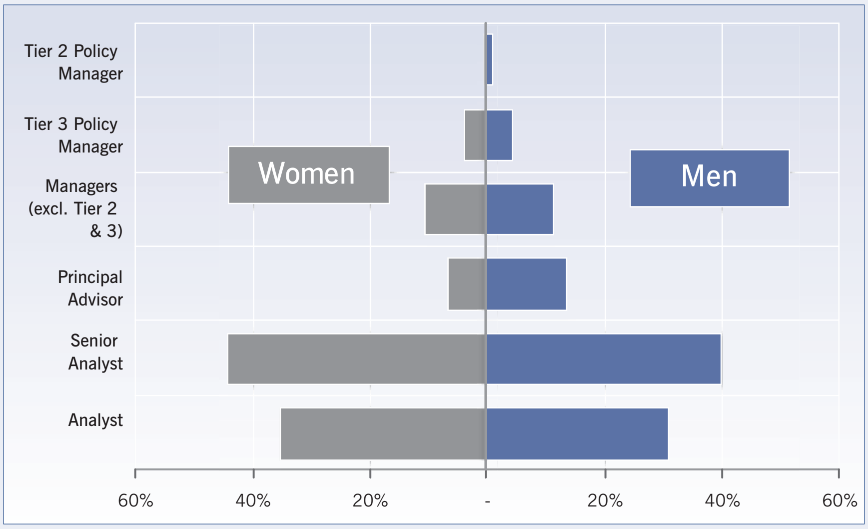
The gender jigsaw framework shown above suggests that strategies or policies are required to enable and support gender and other forms of employment equality. If diversity is the desired future state, then equal employment opportunities (EEO) strategies are the means to that end. Several recent reports have suggested that there is patchy attention across the public service in this domain. Only about half of respondents to the Integrity and Conduct Survey and proportionately fewer women than men (48%/51%) agreed that 'Senior leaders make efforts to ensure equality and diversity in my organisation', suggesting that diversity may not be a priority for many of our senior leaders, or, if it is, that they fail to communicate that priority. This perception mirrors the findings of research by Lucy Sanderson-Gammon who interviewed human resources managers in the public service: 'Interviewees were asked whether they had specific gender diversity policies, processes or initiatives in place to address gender balance in their organisations. The majority had none, and those that did, provided anecdotes that indicated the

The Policy Workforce

In a recent speech to the Trans-Tasman Business Circle, the secretary of the Treasury likened the state sector to a 'team that manufactures ideas to solve policy problems' and argued that 'we need diverse perspectives to produce the best ideas we can'. He called diversity (gender, ethnicity, of ideas) a 'performance advantage' (http://www.treasury.govt.nz/publications/media-speeches/speeches/diversityadvantage). The main ideas machine in the public service is arguably the policy workforce. So how does it stack up in the gender equality takes?

Women account for 54.5% of the overall policy workforce. From Tier 4 managers and below women make over half of policy management and analyst positions, except at Principal Advisor/analyst level where women make up just over a third (36%) of those roles.

Female representation in policy roles



The pay gap is also evident in the policy cadre. At analyst level the gender based pay gap is 2%; it rises steadily with seniority up to 12% at Tier 3 and 16% at Tier 2.

initiatives were not achieving the desired outcome' (Sanderson-Gammon, 2013). Similarly, the Human Rights Commission report *What's Working?* argued that, despite EEO obligations under the State Sector Act (section 56 'good employer' obligations, and section 58 requirement to develop, publish and report annually on an EEO programme), patchy performance and significant differences between public service departments in terms of EEO were evident. That report delivered bouquets and brickbats. In terms of gender equality, it singled out the Department of Corrections for its efforts to improve opportunities for women staff (through gender-balanced teams, access to mentoring and leadership programmes) and highlighted the results of those efforts, including a negligible pay gap.

The EEO 'monitoring' capability at the centre has also reduced over time. In the late 1980s State Services Commission had an EEO team of around six staff with a mandate to review departmental EEO plans and provide promotion activities. By the time the first CPS was released in 2002 there was just one full-time equivalent working on EEO. The focus of those policies has also changed over time, from EEO to diversity. In 1996 the state services commissioner convened a steering group of chief executives, resulting in the strategy document *EEO Policy to 2010* (State Services Commission, 1997); this was subsequently reviewed in 2007, leading to the Equality and Diversity policy, a one-page policy document requiring the integration of equality and diversity into departmental planning and reporting (State Services Commission, 2008). It emphasised individual chief executives' accountability for the progression of equality and diversity in their departments.

Levers: accountability mechanisms

So what are the current levers to ensure chief executives and their agencies live up to their statutory 'good employer' responsibilities, and to what extent does this include a focus on equality and diversity? As part of the specification and review of chief executive performance, the State Services Commission expects chief executives to ensure that their agencies have organisation cultures that value diversity, and also to help develop leadership capability across the system to contribute to increased diversity in the leadership pool for the state sector.[3] Central agency guidance on departmental four-year plans similarly includes expectations related to diversity. That guidance advises agencies that four-year plans 'should include a description of how your workforce strategy supports your strategic direction and … should cover at a high level your agency's strategy and intentions around:

- change leadership
- organisational culture and engagement
- diversity
- workforce capacity
- capability, and
- costs' (State Services Commission, 2014b).

Central agencies review four-year plans, with the State Services Commission taking the main responsibility for commentary on workforce capability, including the appropriateness of the department's stated diversity intentions.

The Performance Improvement Framework (State Services Commission, 2014e) also includes a lead question on diversity, namely: 'How well does the agency develop and maintain a diverse, highly engaged workforce'? In short, therefore, the key accountability mechanisms do indeed all set expectations for chief executives and their departments related to diversity. At a whole-of-system level, EEO performance is reported through the annual report of the Human Resources Capability survey, where there is commentary on the status of each EEO group.[4] Human Resources Capability survey data has been recently made more accessible to departments, enabling them to generate more in-depth analysis of their own results and to compare those results against those of other departments. The Human Rights Commission has criticised the lack of critical analysis of departmental EEO progress by central agencies, although it could be argued that the commission itself plays an important role in this context.

While women make up the majority of public servants, disparities remain in terms of seniority, occupational segregation, pay and career progression opportunities.

Better Public Services reforms: a window of equal opportunity?

The Better Public Services reforms implemented over the last two–three years have emphasised a move away from a focus on individual agencies towards a greater focus on the overall system, and how the government machine can collectively add value to the lives of New Zealanders. This is evident in the Better Public Services results (substantive policy targets), functional leadership (system leadership and developing capability in business functions) and people capability (developing current and future leaders).[5] This more systemic focus offers an opportunity to build diversity into leadership and people capability strategies that apply across the public service (and the wider state sector). The *Public Services Briefing to the Incoming Government* – the first time chief executives have collectively briefed an incoming government – asks (but does not answer the question) 'whether our public service workforce is diverse enough to meet the challenge of successfully providing citizen-centric services for more diverse communities' (State Services Commission, 2014f). The State Services Commission's *Briefing to the Incoming Minister of State Services* also includes references to diversity, in relation to senior leadership roles – 'We will embed a recruitment strategy into the state sector that supports an increasingly diverse leadership cadre who are representative of New Zealand' – and in relation to wider workforce strategies (or future leaders) – 'We are building a system leadership pipeline that is both more diverse and more able to respond to the needs and expectations of New Zealanders' (State Services Commission, 2014a). The commission's relatively new Leadership Capability Development and Deployment (LCDD) team (led by the chief talent officer) confirms that it is applying a diversity lens across the LCDD programme (personal communication). That programme is also looking at building and developing the pipeline of new public servants and is responsible for the running of career boards and developing and appointing people to 'key positions' (Pratt and Horn, 2014).[6] These will be crucial mechanisms for identifying and developing senior leaders and for ensuring that women, and other historically disadvantaged groups, get appropriate exposure and development support.

Future human resource capability reports will show whether the embedded 'diversity lens' (as opposed to a separate 'diversity strategy') approach to equal employment opportunities is successful. This approach contrasts with recent overseas developments, such as in the United Kingdom, which has recently launched a Talent Action Plan (Cabinet Office, 2014). That plan includes a range of concrete steps towards diversity (including gender and other EEO groups), with permanent secretaries being held accountable for results, including an obligation to nominate 'board-level diversity champions' in each department. Moreover, where individual departments lag behind the average, permanent secretaries and chief executives will be required to 'set out to the Cabinet Secretary and Civil Service Board a clear and proactive plan for sustainable improvement'. The plan also makes diversity learning part of the formal induction process for all civil servants, and 'all managers will be required to do Unconscious Bias e-Learning'. The Civil Service Board will review progress against the plan, on both a whole-of-civil-service and individual department basis, every six months. It will be interesting to see the impacts on women's employment in the UK civil service.

Conclusions

If the desired future state is diversity at all levels of the public service, then we have a way to go. Progress towards gender equality in the public service is slow, and slowing down. Neither equal opportunity nor diversity will happen automatically. What gets measured matters, and vice versa. The Better Public Services results have shown that reporting against goals is a powerful motivator for attention, action and change. In all aspects of reform we need to know where we are heading, how we are going to get there and how we will know when we have arrived.

We appear to have most of the statutory and accountability mechanisms in place, and enough information to piece together and benchmark the state of women's employment in the public service. While women make up the majority of public servants, disparities remain in terms of seniority, occupational segregation, pay and career progression opportunities. We cannot continue to 'explain' those disparities as being the result of a lack of confidence or of personal choices (of occupation, to take time out for children, to balance work and family life). Instead of telling women to 'step up' or 'lean in', we need to 'lean back and listen' in order to develop specific strategies – in agencies and across the system – to enable and support women's career progression.

More analysis of the current state (this article provides only a limited snapshot), a more comprehensive 'vision' of the future state, and better details about the direction of travel from one to the other is required. The Australian federal government and the British civil service regularly survey their staff to monitor and promote engagement, leadership capability and career progression (Australian Public Service Commission, 2014b; Civil Service, 2013). A repeat of the Career Progression and Development Survey, or similar, would give us a fuller picture of women's work expectations and experiences and where efforts to remedy barriers to advancement would be best directed.

The Better Public Services environment holds the potential to improve employment opportunities for women and other EEO groups via a more joined up whole-of-government approach to leadership and capability underpinned by a recognition that the public service needs to be more representative of the population it serves. Moreover, a focus on results and collective impact requires leaders, at all levels, who have expertise in collaboration and relationship and network management (CEB, 2014) and are skilled at bringing people together to get things done. We will increasingly need more 'host' (collaborative) as opposed to 'hero' (authoritarian) leaders (Leadership Development Centre, 2013). The private sector is increasingly cognisant that '[t]oday's more open and collaborative organisations typically require management behaviours which women are more likely than men to adopt' (Wichert, 2014). If the public service is to continue to attract top talent and remain an 'employer of choice' for women, then a more deliberate and targeted effort is required. Better Public Services provides a window of equal opportunity for putting gender back on the agenda and for reaping the business benefits this might afford.

1 Largely drawn from the Integrity and Conduct Survey.
2 Tested to $p<0.05$ level.
3 Personal communication.
4 With the exception of people with disabilities.
5 http://www.ssc.govt.nz/node/8893; http://www.ssc.govt.nz/bps-functional-leadership; http://www.ssc.govt.nz/developing-future-leaders.
6 http://www.ssc.govt.nz/developing-future-leaders-key-positions

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Máire Dwyer

Sole Parents in Poverty
it's time to update the policy paradigm

Sometimes you just cry. When your kids are sick you just feel so helpless and you can't give them what they need. Can't take them to the park or anything because there's hardly no food to pack to take. WINZ expect me to run here and there and yet I told them, 'I just finished giving birth. I can't run here and there. Please, I'm already over my limits'. I had my two girls in the car and I had to sleep at Seaside Park with a newborn. Then Child Youth and Family Services might think I'm a bad Mum, with a newborn and nine-year-old and take my kids.

— Work and Income beneficiary quoted in Hodgetts et al. (2014)

In 2013 there were 201,804 sole-parent families in New Zealand – 84.2% were female-headed, six in ten with a youngest child aged under 15 – compared to around 469,290 two-parent families (Statistics New Zealand, 2014a). Around 90% of sole-parent families had a level of equivalised disposable income below the overall median in 2013, compared with 50% of two-parent families (Perry, 2014).

New Zealand sole-parent poverty rates are particularly high in comparison with those for other groups. In 2013, 18% of the New Zealand population were poor on a standard poverty measure.[1] Around one in ten (11%) two-parent families were poor, but almost six in ten (56%) sole-parent families were poor; 64% of sole-parent families living on their own were poor.

The fact that so many New Zealand sole parents and their families are poor is well known and has been examined by an expert advisory group on solutions to child poverty, as well as by many researchers and organisations, including the Child Poverty Action Group, Every Child Counts, the Auckland City Mission's Family 100 project and UNICEF. Despite this, the majority of sole-parent families remain in poverty, and have done so under both Labour- and National-led governments.

Government reports have explored the prevalence of 'vulnerabilities' within sole-parent families and the services that assist individual sole parents to adapt to mainstream expectations and services (e.g. Ministry of Social Development, 2010). This analysis considers where the mainstream itself needs to adapt so that policies work better for sole parents. The article first grounds the analysis in recent insights into the barriers facing New Zealanders who are poor. It then discusses the gender biases in policies

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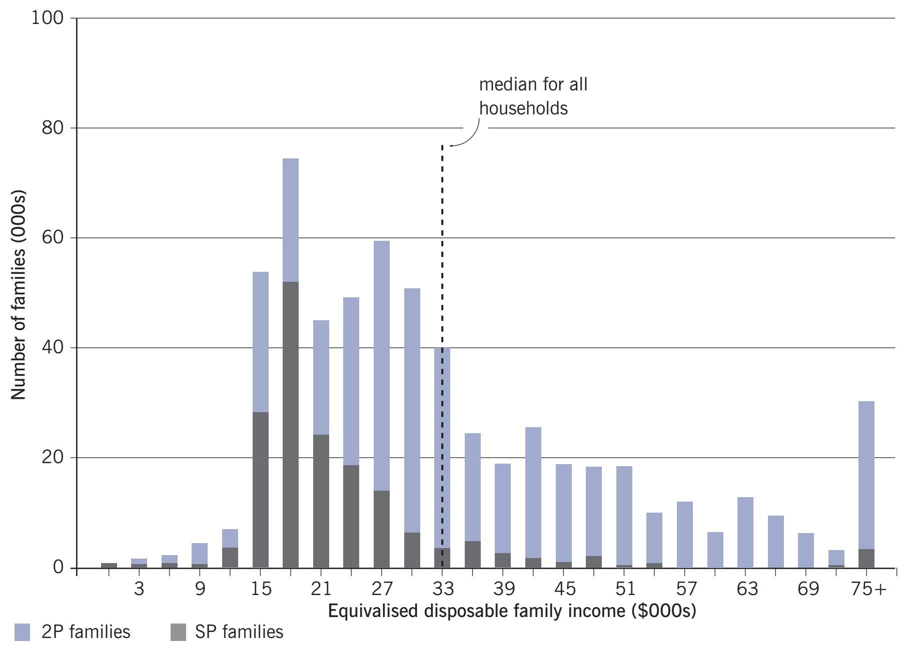
Figure 1: Distribution of sole parent (SP) and two parent families (2P) by disposable income (Perry, 2014)



that make it difficult for sole parents to extract themselves from poverty; implicit assumptions in welfare design that need updating; and the contribution of demographics to poverty in Māori and Pasifika families. Finally, it suggests the factors contributing to an outdated, and gender-blind, policy paradigm.

Insights into poverty

Poverty research invariably finds that overlapping factors influence people's opportunities to get out of poverty. The Auckland City Mission's Family 100 research project draws from a series of multiple interviews with a hundred families who were long-term clients of the mission's food bank, and a representative selection of regular clients. Women were 80% of project participants (not all were sole parents); 40% of participants were Māori, 25% Pasifika, 22% European, and 13% Asian or other ethnicity. The participants identified the following factors as contributing to them remaining poor (Auckland City Mission, 2014):

- *Debt.* Despite budgeting most people had no option but to incur more debt. They turned to expensive sources of credit and this intensified their debt.
- *Justice.* Lack of money led to unpaid fines. Family members in jail negatively affected children, and visiting cost families. Criminal records made it difficult to gain employment.
- *Housing.* Many families lived in over-crowded and/or substandard housing far from transport or services. Forced moves and lack of finance constrained options.
- *Employment.* Participants wanted employment. Poor health and lack of transport were barriers. Low pay rates and variable hours of work contributed to continued poverty.
- *Health. Stress,* poor nutrition and poor housing and unaffordable services such as dentistry all contributed to poor health.
- *Food* is the most discretionary item in budgets and therefore what people go without.
- *Services.* Work and Income offices lack basic facilities such as toilets, and privacy, and seeking help is time-consuming, dehumanising and reinforces a lack of self-esteem and self-worth.
- *Education.* Children's education is impeded by lack of food for lunches and money for trips and school items. Sole parents lacked pathways to gain higher education.

Poverty rates are high among families that access Whānau Ora, a programme which supports whānau to identify and plan to meet their needs and aspirations. Whānau goals include health, life skills, whakapapa, cultural skills, education and employment. Learning undertaken has included nutrition and healthy lifestyles, budgeting, financial literacy, computer skills, drivers' licensing, and drug and alcohol counselling. Access to information, and building trust, have been identified as preconditions for shifting whānau members from being marginalised to feeling empowered, and to taking steps to access education, support services and employment (Te Puni Kōkiri, 2014).

Systemic barriers to sole parents' agency

Improving women's agency – that is, 'the ability to make decisions about one's own life and act on them to achieve a desired outcome, free of violence, retribution or fear' (World Bank, 2014) – is key to reducing gender inequality. As exemplified by the 'Girls Can Do Anything' campaign in the 1980s, 'agency' has been essential in reducing gender inequality in New Zealand. However, while having sole charge of a young child or children is a barrier to education, work and other activities, this is not systematically recognised across policy settings.

Education and training policies

Higher levels of education and skills are associated with higher earnings and less vulnerability to unemployment. In 2010 nearly half of all single parents on welfare benefits had no formal educational qualifications, and a further 44% had only school qualifications (Ministry of Social Development, 2010). For single people with no children, unemployment following the loss of a job can be a trigger to undertaking more education or training. Independent single people with limited prior tertiary education can generally access a targeted student allowance. For sole parents, the prospects of accessing their chosen tertiary courses are very limited. They do not have enough free time to undertake full-time study or full-time work. The student allowance is for full-time students only. Modern apprenticeships, similarly, are designed around full-time work.

If Work and Income case managers agree, sole parent beneficiaries can access the Training Incentive Allowance to cover the full costs of a limited range of pre-tertiary courses, and up to $5000 per year, reassessed every year, for agreed undergraduate courses. Beneficiaries can also be directed to undertake training by Work and Income. Some do take on student loans, but these do not necessarily lead to secure, adequately paid jobs. Many beneficiaries are reluctant to take on a student loan (Auckland City Mission, 2014).

The value of education and training was recognised in the first performance report on the benefit system, undertaken for the Ministry of Social Development in 2013–14 (Ministry of Social Development, 2014a). Developing modular apprenticeships that can be undertaken on a part-time basis and opening up access to student allowances for part-time study in cases where there are caring responsibilities would enable not just sole parents but also other carers to have similar opportunities as other adults to develop their skills.

Employment environment

There is considerable movement on and off the sole-parent support benefit (Ministry of Social Development, 2014a). While part-time work is manageable for most sole parents, accessing secure employment and hours, as well as having the flexibility needed to care for children, can be problematic. The New Zealand Council of Trade Unions estimates that over 635,000 people, or at least 30% of the New Zealand workforce, have insecure work (New Zealand Council of Trade Unions, 2013). In 2012, one in ten (10.4%) employed New Zealanders were in temporary jobs, with temporary employees disproportionately female, younger, and Māori or Pasifika.

To exit, or stay off, a benefit sole parents need to work a minimum of 20 hours per week, which will entitle them to the minimum family tax credit of $438 after tax per week and the in-work tax credit, which provides working families with at least an additional $60 net per week. The minimum family and in-work tax credits are not averaged over yearly working hours, so teacher aides, for example, who are contracted from February to December lose not just their work but also the minimum family tax credit over the summer holidays and usually have to sign up again for a benefit (Child Poverty Action Group, undated). Part-work, part-benefit may offer sole parents more security, particularly if they need to be home during school holidays.

Low pay is a further issue of concern, as, even when working, most sole parents have incomes below the median level. In the Decemeber 2012 quarter, median gross hourly earnings for temporary workers were 74% of those for permanent employees and one in five employees had been in their current job less than a year (Statistics New Zealand, 2013). Around one third of all jobs are part-time, but they are less well-paid on average than full-time jobs. For low-paid sole parents, taking on a full-time job hardly increases their incomes above what they receive from a 20-hour-a-week job (Fletcher, 2011). Current pay structures and job security deserve focus for a number of reasons, including the pursuit of gender equality (Hyman, 2015).

Work-related provisions

Part-time employment does not bring all the benefits of full-time employment. An accident that prevents a person from working can propel a sole parent onto a benefit. The Accident Compensation Corporation provides 80% of actual earnings as earning-related compensation. Low-income earners can access the minimum earnings-related compensation payment only if they have been working at least 30 hours a week prior to their accident. After four weeks of payments the 80% calculation is based on actual earnings for the 52 weeks prior to the accident. This means people who are in part-time work, are new to a job or have intermittent employment are unlikely to get an adequate level of compensation. If they access a benefit, this is abated dollar for dollar against the ACC earnings-related compensation, rather than the earnings-related compensation being treated like any other income.

Paid parental leave is income-related up to a low cap, but requires a mother's continuous employment for at least six months. Given the lack of security in many jobs, this seems an unwarranted constraint and could be replaced by averaging earnings over the same period.

Child Support paid on behalf of a child in a sole-parent family on **a benefit is not passed on to the sole parent** but used to defray overall costs of the benefit system.

Child care

Government spending in this area focuses on early childhood education (ECE) rather than on supports for child care that enable caring parents to be in employment. The flagship ECE policy is 20 hours' free early childhood education per week for three- and four-year-olds. Out-of-school care services receive minimal funding, and participation levels are low compared to those in other OECD countries (OECD, 2011).

Further, the 20 hours' free ECE is not a good fit with the minimum family and in-work tax credit mechanisms that enable sole parents to stay off, or move off, benefits. Sole parents need more than 20 hours of ECE to engage in 20 hours of paid work.

The Ministry of Social Development's targeted child care subsidy is available for up to 50 hours care per week for those in work or approved training, but it is not a full payment. The most generous provision is only available to teenage sole parents on a benefit, who can access the guaranteed childcare assistance payment of up to $6 an hour for up to 50 hours a week when they engage in approved activities.

Financial support

Sole parents on welfare benefits

Currently, sole parents can access sole parent support with a requirement to look for part-time work when their youngest child is aged five.[2] Sole parents with a youngest child aged 14 or older can access job search support with full-time work expectations.

Child Support

Child Support paid on behalf of a child in a sole-parent family on a benefit is not passed on to the sole parent but used to defray overall costs of the benefit system. It is, however, passed on to the parent in cases where that parent has repartnered, even if the couple receive a benefit. Sole mothers who cannot, or do not, name the father of their child are usually penalised by receiving a lower level of benefit. Failure to pass on all or some of Child Support paid is out of step with international practice, and has been criticised internationally and nationally as unfair and contributing to both child poverty and disaffection on the part of the parents who contribute Child Support.

Parental tax credit

The government pays a parental tax credit to parents not eligible for paid parental leave, on the birth of a child. To access the parental tax credit, families need to be off benefit. This is a relatively easy test for a two-parent family, but difficult for almost all sole parents.

Constraints on relationships

Welfare benefits are tightly targeted on the income of the immediate nuclear family. Entitlement to sole parent support ceases when a beneficiary marries or enters into a de facto relationship.[3] Ministry of Social Development manuals and protocols direct very early interventions in cases where clients have an emerging relationship. Case managers are encouraged to negotiate a time frame of up to six weeks with a client to allow them to decide whether the client will enter into a de facto relationship. They are directed to discuss cases where they are unable to make a decision regarding the client's relationship with their regional solicitor or the Fraud Investigation Unit.

Having to determine whether a relationship exists within such a short time frame contrasts markedly with the three years of cohabitation required before the equal sharing rules of the property relations legislation apply. It is out of step with social norms whereby it is now usual for de facto cohabitation to be the first form of relationship, and for cohabitation to occur before marriage (New Zealand Families Commission, 2013, p.56). These procedures constrain normal adult freedoms and the short-term relationships which may or may not become long-term commitments. The threat of loss of benefit as a consequence of engaging in any sort of relationship lessens sole parents' opportunities to manage their own lives and establish themselves in a supportive relationship.

Accommodation supplement

The design of the tightly targeted accommodation supplement provides a lower maximum amount of support for a sole parent with one child than it does to a couple with one child, even though both households require the same number of bedrooms.

Working for Families

The Working for Families tax credits, implemented between 2004 and 2007, increased the amount families received from the family tax credit, accommodation supplement and childcare assistance payment. It increased the level of the minimum family tax credit and removed the child component of main benefits. As an incentive for families to be in paid work, the in-work tax credit replaced a child tax credit

The hours of work requirements for the in-work and minimum family tax credits favour two-parent families. The requirements for a couple are 30 hours per week between them, whereas a sole parent must work 20 hours a week. So long as one parent in a two-parent family meets the 30 hour requirement, the family can access the in-work tax credit until their youngest child is 18. These time-based requirements fail to take into account the similar levels of unpaid care work that sole parents and couple parents must undertake, and how that impacts on the time parents have available for work.

Our history of income support for families stems from a 'wage earner welfare state' established in the 1930s, when 1935 labour legislation decreed that a 'family wage' paid to adult male workers ...

The need to replace the breadwinner paradigm

Our history of income support for families stems from a 'wage earner welfare state' established in the 1930s, when 1935 labour legislation decreed that a 'family wage' paid to adult male workers needed to be sufficient to maintain a wife and three children (Castles and Shirley, 1996). In contrast, European and Scandinavian welfare developed around a social insurance model. Our welfare arrangements today depend on nuclear families supporting family members through their own income, with government providing residual, targeted support.[4] This arrangement was never one which would enable women to reach their potential, but today it is even less satisfactory.

Growing numbers of families do not fit the primary breadwinner model.

Substantial changes since the 1970s include: increased female labour force participation; an increased share of families headed by a sole parent; a growing proportion of children who spend some time in a sole-parent family; marriage being no longer as prevalent, nor as enduring; the growth of insecure and irregular employment; widening wage differentials; and the increased vulnerability of low-skilled workers to unemployment.

Working for Families, ECE policies and the employment environment reinforce women's role as 'secondary earners' who are semi or fully-dependent on men through: the high effective marginal tax rates facing second earners in low- and middle-income families; the difficulties of affording and acquiring enough child care for both parents to work full-time; and the generally poor quality of jobs that are available on a part-time basis.

Moreover, the in-work tax credit has not achieved its goal of increasing parents' involvement in work. An evaluation by the Ministry of Social Development and Inland Revenue found that around 8,100 more sole parents engaged in work as a result of the Working for Families changes, although gains were lost following the economic downturn in 2009. It also found that 9,300 fewer second earners in two-parent families were in paid employment. This was somewhat disingenuously described as giving 'couple parents greater choice about working and caring for their children by making it easier to manage on less income from the labour market' (Ministry of Social Development and Inland Revenue, 2010). Never mind about choice for sole parents, or couples where low pay meant both had to work, or where one or both were unable to work due to illness or invalidity. More gender-aware analysis would have pointed out that poor work incentives for second earners not only compromises the goals of the policy, but means that taxpayers are supporting some families who could engage in more paid work than they do currently. Anyone who is out of work for a long time loses workforce skills, reducing their future employability and potential earnings. They also increase their vulnerability to poverty and reliance on welfare if their partner loses their job or their relationship breaks down. Over a quarter of sole parents become beneficiaries as a consequence of relationship breakdown.

In the case of unemployment or sickness, benefit entitlements determined on the basis of joint family income do not meet the social insurance needs of the majority of couples, who have two earners, pay tax as individuals and have commitments based on two incomes. The current framework fails to adequately recognise caring responsibilities, and makes it difficult for adults with limited earning potential (such as sole parents and invalids) to form a new relationship without becoming dependent on another adult.

> ... policy advisers have yet to come to terms with the **diversity of family forms and the different demographics of populations.**

This issue needs a fuller discussion than is possible here. However, women's participation levels in the labour force are now almost equal to men's, most mothers of dependent children are now in paid work, and, on average, young women are achieving better education outcomes than young men. It is timely to consider expanding individual entitlements to social insurance beyond ACC to cover sickness and unemployment, and to ensure more explicit recognition of responsibilities for care. This is key to reducing women's greater vulnerability to reliance on benefits or partners and achieving gender equality.

The need to take account of the youthfulness of the Māori and Pasifika populations

Māori and Pasifika populations have around twice as many children to support per working-age adult as does the Pākehā population. Qualifications, and therefore wages and employment prospects, are also lower on average, and they have poorer outcomes in a number of areas, including health, violence and incarceration. Due to lower life expectancy and their youthful population, there are fewer retired people available to support children and grandchildren. Not surprisingly, their labour force participation (66.7% for Māori, 63.1% for Pasifika), but more particularly their employment rates (58.5% and 55.7% respectively), are lower than is the case for Pākehā (69.9% and 67%) (Statistics New Zealand, 2014b).

Demographics affect the level of welfare take-up by different populations. To get ahead these young populations need more than strategies to assist people into work. In the 1950s and 1960s the Pākehā population had a similar youthful demographic. Social policy then focused on the needs of young families, and included home help, housing programmes to get young families into their own homes, and the creation of suitable facilities for children.

Concluding comments

Most sole parents in New Zealand struggle to make ends meet. For too many there is no visible pathway into decent work and off the benefit. Why is policy not delivering better outcomes for sole parents? I suggest there are four contributing factors.

First, the Better Public Services goal of reducing long-term welfare dependency is a poorly specified goal which, perversely, may be leading to more gatekeeping around access to benefits and premature exiting of beneficiaries. Important outcomes, such as improvements in sole parents' wages and total incomes, are not monitored at all by the Ministry of Social Development (Ministry of Social Development, 2014b).

Second, welfare policy remains dominated by orthodox economic analysis which has never taken unpaid care and household work into account. Moreover, the archetype of an unfettered 'economic man' could not be further from the reality of a woman in sole charge of young children. In its focus on individual incentives, current welfare policy misses the bigger picture of constrained choices and the distribution of responsibilities for raising the next generation.

Third, policy is still largely siloed and decided within a certain department's budget. The Ministry of Social Development's investment approach has identified the long-term costs within ministry benefits, but does not include the costs of impoverished families elsewhere in the system, and the long-term costs of Working for Families. It is focused on investments within the welfare system, not broader system changes, such as child care policies and lower income taxes, that could have positive impacts on the trajectories of sole parents and others.

Finally, policy advisers have yet to come to terms with the diversity of family forms and the different demographics of populations. Many policy initiatives consider only the aggregate impacts of change, rather than the needs of, or impacts on, particular groups, including women and men. This suggests a lack of diversity of thought in policy leadership, and limited capability around population and gender issues. More gender analysis would bring to the fore the differential impacts of policy on women and men, and other population subgroups, and recognise that systems and policies are evolving from gender-inequitable starting points. It would enable the identification of policy options which will reduce gender-based inequalities and support social norms that reinforce gender equality.

1 Based on the measure of having an equivalent income less than 60% of the contemporary value median (or middle) income after housing costs are taken into account (Perry, 2014).
2 If a beneficiary has a child while on a benefit, the part-time work requirement is applied when that child turns one provided there is an older child aged at least five.
3 These issues are explored more fully in St John et al., 2014.
4 Exceptions to the targeted approach are New Zealand Superannuation, a government-funded, universal, individual pension. Government-funded paid parental leave and support payments to people who are legally blind are also not targeted. Victims of accidents receive income-related compensation (largely funded through levies) when they cannot work.

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Denise Wilson, Rachel Smith,
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Becoming Better Helpers

rethinking language to move beyond simplistic responses to women experiencing intimate partner violence

Abstract

The prevalence of family violence is a persistent challenge facing New Zealand. Its effects are pervasive, spanning multiple levels: individuals, family/whānau, communities, and society in general. A major challenge in effectively addressing family violence is the apparent disconnect that exists between the various agencies and services that interact with families/whānau where abuse has become a defining feature of their lives. Despite efforts by agencies to become more collaborative, they tend to function in silos. In conducting a series of death reviews the Family Violence Death Review Committee has found agency records to reveal a lack of shared understanding of intimate partner violence as a gendered problem. The records misconstrue victims' and perpetrators' roles and convey distorted notions about the realities of victims' lives and the context of the violence they suffer. This leads to practices that put victims and their children at further risk. In this article we discuss findings related to the use of language and the concept of empowerment that need to be critically considered by those working with victims and perpetrators and those planning and designing family violence responses and services.

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Introduction

In the decade 2000–2010, New Zealand women experienced the highest rate of intimate partner violence, including sexual violence from intimate partners, of any women in the OECD countries reporting (Turquet et al., 2011). The Family Violence Death Review Committee (FVDRC) is an independent committee which reviews family violence deaths in New Zealand.[1] The FVDRC uses a systems approach to reviewing deaths. Reviews involve analysing how the multi-agency family violence system is functioning. The committee reports its findings to the Health Quality and Safety Commission, and makes recommendations about strategies to reduce family violence and family violence deaths. Its most recent report (FVDRC, 2014) confirms that family violence, and in particular intimate partner violence, is a gendered problem: women and children are most likely to suffer serious harm or death. Moreover, those who survive family violence will suffer lifelong social and health consequences.

Family violence, and in particular intimate partner violence, is insidious, complex, and involves deliberate unilateral actions (abusive and violent attitudes and behaviours) by one person against another. It is a cumulative and frequently escalating pattern of harm by an abuser who uses coercive control and manipulation to maintain a woman's silence and reinforce her entrapment (Coates and Wade, 2007; Stark, 2007). Intimate partner violence is disempowering. Women usually seek help when the violence they live with has escalated, along with the danger they face. These women are highly likely to be at risk of serious or lethal harm, their lives are generally signified by complex needs (Nuruis et al., 2011), and their abuse is usually chronic.

The conceptualisation of family violence by those with decision-making responsibilities (politicians, policy advisors, government officials, service providers, front-line workers, community groups and the general public) is evident in the language used to record and describe the key players' – victims' and perpetrators' – actions and responses. Invariably in records consulted during FVDRC death reviews the way language is used fails to reflect what we know about family violence, and almost always advantages perpetrators and disadvantages victims.

We have found that when women seek help for intimate partner violence, the violence has generally escalated to a high level of risk and must be taken seriously.

Family violence as a 'wicked' problem and the continued disjuncture with simplistic practice

Family violence is often described in policy as a 'wicked' problem, meaning a problem that is both complex and resists resolution (Devaney and Spratt, 2009). Family violence is ongoing, frequently spanning multiple relationships, and inherent in the complexities of people's lives: their histories of interpersonal violence, colonisation, deprivation, and the structural discrimination and barriers they endure. While condemned, it is also socially tolerated and normalised.

There is widespread appreciation that an effective response to family violence in New Zealand is undermined by the complexity of the current system, by the raft of social issues that typically accompany family violence, and by the range of family members potentially affected or involved. An effective response is necessarily an integrated, systemic multi-agency response, which is capable of addressing the unique circumstances of the people affected. Yet, while policy makers appreciate that family violence is a problem requiring complex solutions, our everyday practice responses in New Zealand continue to be overly simplistic and unsafe. For example, the safety planning that typically occurs in response to intimate partner violence involves generating a standard list of actions that women can take to protect themselves and their children (including contacting the police, obtaining a protection order and finding temporary accommodation in a refuge). Though policy makers acknowledge that an integrated, person-centred response system is required (Boon et al., 2004; Herbert and Mackenzie, 2014), the FVDRC death reviews reveal that, despite the best efforts of some organisations and people to work collaboratively, they fail to provide the seamless wrap-around support that women and children experiencing abuse need.

Death reviews provide evidence that victims repeatedly articulated concerns to a range of people about their own and their children's lives being threatened. We have found that when women seek help for intimate partner violence, the violence has generally escalated to a high level of risk and must be taken seriously. Frequently, however, agencies or service providers place the onus for changing dangerous situations on victims, instead of sharing responsibility with other agencies to curtail a perpetrator's ability to be abusive. In other words, acknowledging family violence as a 'wicked problem', with all the implications that entails, has not yet been effectively translated into front-line practice with women and children experiencing abuse – the everyday praxis that shapes the way agencies and services work together.

The FVDRC death reviews have identified that the way in which family violence is conceptualised in agency and service records continues to support a fragmented, siloed and simplistic response to family violence (FVDRC, 2014). Importantly, such conceptualisations distort the violence experienced by victims and the context in which it takes place. This, in turn, leads to communications and actions that are ineffective and put victims at further risk.

In this article we discuss findings related to the use of language and the concept of 'empowerment' that need to be considered by those working with victims and perpetrators, as well as those planning and designing family violence responses and services. Importantly, the way in which language is used to report family violence becomes a precursor to the ways that practitioners respond and their subsequent actions, which the FVDRC has found is invariably gender-biased (see boxes 1 and 2). The way language is used, therefore, needs to be refocused to ensure that victims' realities and experiences are accurately recorded and made visible. Indiscriminate use of language is unhelpful and dangerous, primarily because it reinforces prevailing misconceptions about victims and their role in resolving family violence, particularly intimate partner violence.

We suggest that a shared change in mindset, evident in language and practitioners' responses, must occur before new configurations of safety and practice can occur. For policy makers and those planning and delivering family violence and related services, having a different mindset is antecedent to creating a different 'space' in order to develop an integrated system that responds more effectively to victims of family violence. To comprehend a mindset, one needs to first look at the concepts that inform people's current understanding of an issue and the accompanying language used to shape these concepts. In the context of intimate partner violence, this involves critically examining: (a) the language used to describe victims, (b) misuse of the notion of victim empowerment, and (c) the role of individual safety planning.

Role of language and empowerment theory

The findings of FVDRC reviews show that the language policy makers and practitioners use redefines women's experiences of abuse, often minimising, disregarding or refuting the victim's version of events. This reframing of victims' experiences will influence practitioners' actions and the strategies they use to respond to a victim's safety and protection needs. Such framing can shape collective interpretations of, and responses to, what occurred. For instance, effective information-sharing between practitioners and agencies is reliant on:

- the integrity of the information sought;
- the quality of information shared;
- what is understood by the practitioners in response to the information shared; and
- what action is taken in response to the information shared.

What happens at each of these levels is greatly influenced by the conceptual frameworks used to understand and describe the issue that is being responded to, the language used to request and communicate information, and what actions are judged to be appropriate in response.

Incidents versus episodes

Family violence is frequently defined and responded to as discrete 'incidents'. This deters practitioners from uncovering patterns of harm, and neglects the cumulative impacts and consequent risks and dangers associated with ongoing abuse and violence. An 'incident' refers to a distinct or definite event, implying a beginning and end. Containing family violence histories within an incident framework has unintentionally given rise to incident-focused response systems, such as the Family Violence Interagency Response System.

Family violence experiences are better captured within the language of 'episodes'. An episode is part of a series of events. Conceiving of a family violence disclosure as an 'episode' implies that it has a history and a future. Thinking in this manner supports practitioners to better identify and respond to patterns of repeated victimisation or perpetration, either within one relationship or across multiple relationships. It is about 'joining the dots' in order to better understand victims' vulnerabilities and the risks perpetrators pose so that an effective integrated response is possible.

Distortion of who did what to whom

Language used by practitioners can distort comprehension of who did what to whom. This occurs through processes such as mutualisation, use of euphemisms, and normalisation (Coates and Wade, 2007). Using distorting language serves to conceal a number of important factors:

- the context within which the violence occurs;
- the victim's resistance to the violence she faces;
- the perpetrator's responsibility for their deliberate and repeated acts of violence and manipulation;
- the perpetrators' anticipatory actions to stop the victim's resistance;
- the impact on the victim of the abuse; and
- the nature of the violence and its severity. (Coates and Wade, 2007)

Victims generally resist violence and abuse, dependent upon their level of perceived risk and fear. Victims are acutely aware that any defiant acts will be matched by an increase in the perpetrator's violence (Caldwell et al., 2009). Therefore, their actions are usually covert and unsuccessful in stopping the violence inflicted upon them. Perpetrators invariably anticipate their victims' attempts at resistance, taking steps to control them by using a variety of mechanisms, including isolating them from friends and family, lying to others about the victim, threatening victims and their children (sometimes with

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Table 1: How Language is used to misrepresent violent acts

Use of Language		Examples from Family Violence Death Reviews
1	Conceal violence	She had a domestic with Steve* before we arrived. It was just ongoing domestics.
2	Confuse and diminish offender's responsibility	Kevin presented as someone who wanted more for himself and his family. He was extremely open about the incident where he hit Mary. He thinks she is a lazy mum and is not motivated enough to look after their three children. This is what annoys him and makes him so angry. Kevin and Mary came into the office so that they could be spoken to together. She appeared to have no motivation or insight into her needs; he admitted that he had anger issues. Kevin and Mary were referred to an organisation that could assist them with parenting.
3	Conceal victim's resistance	She did not appear to be able to take protective action for herself or her daughter.
4	Blame and pathologise victims	Hera did not have any understanding of the level of risk she has placed herself and her baby in by returning to her house. She was making her partner breach the protection order; therefore, she was more accountable for any risk potential.

* Names have been changed, and identifying features removed

death), interrogating them about their movements and intentions, humiliating them, blaming the victim for the violence, and/or inflicting more violence. Yet agency and service records serve as a testament that victims' acts of resistance are generally overlooked and unrecognised. Instead, accounts are framed in ways that hold victims solely responsible for the violent behaviour happening in their family/whānau, and for securing the safety of their children. Language can be used to record and describe events in a manner that minimises and disguises violent acts. The true nature of one person's deliberate acts of violence against another is instead reconstructed to portray these acts as mutual. Coates and Wade state: 'Language that mutualizes violent behaviour implies that the victim is at least partly to blame and inevitably conceals the fact that violent behaviour is unilateral and solely the responsibility of the offender' (Coates and Wade, 2007, p.514). In these ways constructions of perpetrators and victims invariably advantage perpetrators and disadvantage victims.

Language also makes invisible the social and structural inequities that frequently privilege perpetrators over their victims. Coates and Wade propose that language is used in four ways: (a) to conceal violence, (b) to confuse and diminish offenders' responsibility, (c) to hide victims' resistance, and (d) to blame and pathologise victims. (See Table 1.)

Victim empowerment

Empowerment theory has been used widely to inform work with women affected by intimate partner violence (Morgan and Coombes, 2013). In discussing the 'perils' of empowerment, Aiken and Goldwasser (2010) confirm the notion of empowerment, within the context of family violence, as dangerous and founded on misconceptions and false assumptions. Family violence sector practices informed by the idea that it is necessary to empower victims by allowing them to decide what actions to take in response to their victimisation are often a barrier to victims receiving the appropriate support, especially those who are at high risk of serious or lethal harm. FVDRC death reviews between 2012 and 2014 have revealed that intimate partner violence responses based on empowerment theory have led to unintended harm, which has contributed to the women's deaths. Even though empowerment is an ultimate goal for women, the overriding principle must be to keep them and their children safe. Death reviews have shown that empowerment can only occur when women are in long-term safe environments, and are able to make informed choices. Exposure to violence is a predictor of a victim's need for support. However, help-seeking by abused women varies and is mediated by their level of vulnerability to their abusive partners (Nurius et al., 2011). This includes the degree of psychological impact, the quality of their social relationships, their ability to seek legal and health services and their exposure to, and the severity of, violence. It is also mediated by their access to social, health and economic resources. Family violence victimisation (particularly as vulnerability increases) compromises women's ability to be 'empowered' and to independently protect themselves (and their children). The very nature of coercive control makes it close to impossible for many women to successfully remove themselves from a violent partner safely, particularly when it intensifies (Stark, 2007). Victims resist abuse but their resistance does not and most often cannot stop the violence, yet is no less important for that fact. Only agencies' and communities' interventions and/or the perpetrator's change in behaviour can stop the violence.

Current safety plans tend to focus on generating lists of actions that victims need to take to keep themselves and their children safe. It is widely believed that generating safety plans is empowering of victims experiencing abuse and enables them to secure the necessary assistance to stay alive (Aiken and Goldwasser, 2010). Such safety plans effectively shift the onus of responsibility away from agencies and the abuser for stopping the abuser's use of violence and onto the victim herself. Furthermore, believing that one can empower victims to make safe choices assumes autonomy and choice, and therefore conceals the structural inequities many victims are faced with. Such plans do not assist women in high-risk situations to be safe. The result is that, instead of being helpful, unreasonable expectations are placed on victims. When they 'fail' to keep themselves and their children safe they are blamed for their inadequate decisions and choices. This dynamic is worse for women of colour who are likely to face more serious structural inequities and impediments

(Fredericks, 2008; Ritchie, 2000). Without doubt, Māori women and children are more likely to die than Pākehā as a result of family violence.

The death reviews enable us to learn from the deaths of those women who, tragically, have been killed. Frequently they have revealed a context of entrapment and dangerous abuse that has meant that victims were not able to action their safety plans. Instead, when these women sought help for the violence they were living with, it had elevated past the point that they were able to manage on their own. They asked for help because they needed help (Nurius et al., 2011). Victims need agencies to enact integrated safety strategies aimed at curtailing the abusers' violence; reliance on individualised safety plans that attempt to empower women is a dangerous praxis mismatch.

The FVDRC repeatedly finds that for services, and those working within them, individualised safety plans unintentionally absolve agencies from taking further responsibility for the victim's safety. Whether agencies enact their responsibilities regarding victims' safety or not is invariably mirrored in practitioners' practices, which often reflect a lack of education, training and monitoring. Policy makers can lead by providing the necessary expectations and directions, particularly with regard to changing practice mindsets and the importance of an integrated response to family violence.

Box 1: Case example 1

language using an empowerment and individualist approach

Rachel and Tim have a *volatile relationship*, which is characterised by lots of arguing, drinking and fighting. *They both get physical*. Last night there was a domestic incident and Rachel got hurt. While agencies are aware that *Rachel can give as good as she can get*, she is failing to protect her children from witnessing violence in their home. Rachel *needs to leave Tim* and *stop drinking*, so her kids can have a stable home environment that is violence free. Lots of agencies have been involved but *Rachel keeps choosing to stay* with Tim and continue drinking, rather than make the changes needed for her kids. *Rachel needs to put her children needs over hers* and her partner's.

Note: This case example is based on FVDRC death reviews of a person's agency record, with all identifying features changed.

Shifting mindsets

As we have noted, language frames the way in which we understand and respond to issues. Therefore, the language we use can limit or enhance interventions and interactions with victims. FVDRC reviews of practice responses show that the current ways we think and talk about family violence in New Zealand often support victim blaming, perpetrator enablement and absolving agencies of responsibility. Different language could support agencies to be better helpers, and to more accurately assess and attend to prevention opportunities.

If we are to shift mindsets in order to support a more complex and nuanced everyday practice response – one more appropriately matched to the 'wicked problem' of family violence – then we need to ask several questions. What does a safety and dignity mindset look like? What language should be used to shape these responses? Respect is a fundamental principle which underpins an integrated response system (Boon et al., 2004). Respectful practice requires actions aimed at maintaining women's safety and dignity and includes acting on identified risks. It also relies on language used by decision-makers and service providers that is consistently accurate in its portrayal of a woman's situation.

Case examples

The following two case examples show the same episode portrayed in two different ways: they demonstrate the way in which the language that is used makes a difference, particularly in how people then choose to respond. Moreover, documented accounts of events influence others' interpretations of what is happening for a victim and how they also then respond. Case example 1 (Box 1) uses language to describe the violent situation that Rachel has endured which frames her as mutually responsible for the violence that has occurred ('both get physical'; 'Rachel can give as good as she can get'). It also engages in victim blaming by accusing Rachel of 'failing to protect her children', 'choosing to stay' and 'continuing to drink'. The person writing this account then uses an empowerment and individualist approach by indicating that Rachel needs to act in order to put her children's needs before her own. Notably, case example 1 is devoid of any mention of Tim and his role in the violence.

By contrast, case example 2 (Box 2) provides an accurate account of what occurred. It provides a context for Rachel's relationship with Tim: Tim is 15 years older, she was 16 and a young mother (consequent to rape) when they met, Tim has been known to use coercive controlling behaviours in prior relationships, and she uses alcohol to numb and block out the abuse (rather than recklessly choosing to drink alcohol). This version also clearly positions Tim and his actions in this situation: we are told that in addition to threatening to kill Rachel if she leaves, Tim is using strangulation and has smashed a bottle of wine on her head and repeatedly kicked her in her back and head. All of these forms of violence are highly dangerous and potentially lethal. This account also highlights Rachel's resistance to the abuse and violence: she uses alcohol to numb and block out the abuse, she armed herself with a knife to try and stop Tim assaulting her, she grabbed a broom and

Box 2: Case example 2

language accurately portraying what happened

Tim has a *history known to multiple agencies of using coercive controlling behaviours towards* Rachel, as well as his previous partners. Rachel and Tim have been in a relationship for ten years. Tim is 15 years older than Rachel; they *met when Rachel was 16 and a young mother* of her first child, Jason, who was *conceived as the result of rape*. Rachel has had two children, both daughters, with Tim. Tim has *strangled Rachel before to the point that she has lost consciousness*, and he has *threatened to kill her if she leaves him*. Rachel's *use of alcohol has increased* over the years as *a way of numbing and blocking out the abuse*. Both her *parents were alcohol-dependent*. Rachel violently resists Tim's abuse. She has *armed herself with a knife to try and stop him assaulting her*. Last night Tim was *verbally abusing and threatening to beat Jason* for truanting from school. Rachel *grabbed a broom and stood in front of Jason*; she *threatened to hit Tim* with the broom if he approached them. *Tim grabbed a bottle of wine and smashed it onto Rachel's head, causing her to fall to the ground*. Tim *then kicked Rachel repeatedly in her back and head*. Jason was screaming and ran to his mother's aid. A *neighbour heard* Jason's screaming and *called the police*. This is an *opportunity for the police to intervene and put in place a plan to curtail Tim's ability to continue abusing his partner and three children*.

Note: This case example is based on the information the FVDRC gathered about this person's situation (all identifying features changed), and rewritten to show the victim's reality.

stood in front of her son to protect him, and she threatened Tim if he approached her and her son. This version of events also indicates a focus on curtailing the violence and making Tim accountable, highlighting the agencies' responsibilities in achieving this.

Integrated services

Part of joining the dots is the capturing and integration of multi-agency perspectives, as invariably victims and perpetrators have multiple agencies in their lives. Addressing the 'wicked problem' of family violence requires policies and leadership focused on an integrated approach. The challenge in resolving family violence is the diversity of stakeholders, their relatively siloed ways of working, and the differing language and approaches they take (Devaney and Spratt, 2009). It also requires changing the attitudes and behaviours of those working with victims and perpetrators of this socially complex problem. Integration at a macro (system) and micro (person's safety strategy) level cannot occur without a reconfiguration and realignment of the concepts which underpin our ways of working. This means that policy makers and practitioners alike need to reframe help-seeking as a sign of heightened risk, but also as a form of resistance (Richardson and Wade, 2010). When intimate partner violence is a possibility, there is a need for shared responsibility to take action to minimise the impact of perpetrators' abuse and violence, and secure victims' safety.

Conclusion

Family violence is a cumulative pattern of harm that, without effective intervention, is likely to occur over lengthy periods of time. Victims of family violence need the best helpers they can get to secure their and their children's safety and protection. This requires policy makers and practitioners working with those affected by intimate partner violence to ensure the accurate recording of events, identifying the context of the violence, the perpetrator's acts of violence and the victim's acts of resistance. It is important to resist the temptation to assess and respond to the situation using a purely empowerment and individualist approach. Robust action requires a critical approach which foregrounds victims' disempowerment and draws on an integrated service response. What experiences of violence are recorded and how influences not only the perception of victims and their role in the violence they are subjected to, but also the actions taken or not taken to assist them to be safe.

Obviously there are many pieces of work required to ensure that we have an effective integrated system response to family violence that addresses the circumstances of those affected. In this article we are not suggesting that a shift in language alone will be sufficient to achieve this. What we *are* suggesting is that workforce development strategies, as well as multi-agency practice frameworks, and monitoring processes that are required to develop an effective integrated response, will be undermined and unsafe if we continue at a practice level to understand, describe and think about family violence in the manner that we currently do. On the other hand, different and more accurate ways of understanding, describing and recording family violence have the potential to provide impetus and support for these other system changes, and most importantly to increase victims' safety and dignity.

1 The committee's members are Julia Tolmie (chair); Dawn Elder (deputy chair), Professor of Paediatrics and Child Health University of Otago, Wellington; Ngaroma Grant (deputy chair), project manager of Te Arawa Whānau Ora Collective; Denise Wilson, Professor of Māori Health, Auckland University of Technology; Miranda Ritchie, national violence intervention programme manager; Health Networks Ltd; Fia Turner, clinical supervisor, Genesis Youth Trust; and Paul von Dadelszen, retired Family Court judge. For further information on the Family Death Violence Review Committee's report see www.hqsc.govt.nz/our-programmes/mrc/fvdrc/.

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Rachel Simon-Kumar

Between Survival and Relevance

remaking 30 years of the Ministry of Women's Affairs

Since its establishment in 1984 the Ministry of Women's Affairs has had a controversial profile.[1] What began as a feminist policy agency in the public sector discernibly transitioned, in the course of a decade, into a mainstream policy agency whose function is to focus on issues of relevance to women (Curtin and Teghtsoonian, 2010). The ministry's distinctive location at the crossroads of policy and gender places it in a maelstrom of contradictory expectations; like other women's policy agencies elsewhere in the world, the Ministry of Women's Affairs has historically been caught between expectations from community to be its advocate, on the one hand, and requirements from the public sector to conform to the standards of new public management on the other (Sawer and Unies, 1996; Teghtsoonian, 2004, 2005). Its ensuing struggles for legitimacy are as much about identity and ideology as they are about institutional structures and policy processes. Not surprisingly, the ministry has critics both within and outside the public sector.

As part of marking the 30th anniversary of the ministry, this article traces its institutional development and the contested idea of its 'effectiveness'. It reviews diverse narratives about the ministry and re-examines the notion of 'relevance' in an era of conservative fiscal and political ideologies. In so doing, the article appraises the implications for the ministry's representation of women's diverse interests within the constraints of the current policy environment. There is substantial critical scholarship about the Ministry of Women's Affairs over this period that is a useful resource for reconstructing significant change periods (Sawyer and Unies, 1996; Teghtsoonian, 2004; Curtin, 2008; Curtin and Teghtsoonian, 2010; Hyman, 2010). Additionally, this analysis draws on a body of secondary policy data:

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government reports, policy documents and parliamentary debates, among others. Finally, this article is informed by interviews I conducted between 2008 and 2012 with past ministry officials and representatives of community organisations working in the area of women's issues.[2]

A brief profile

The Ministry of Women's Affairs is a small population-based agency within the New Zealand public sector focused specifically on issues that are of relevance to women and that have a gender focus. It has, since its establishment, retained its status as a stand-alone ministry. Currently there are 27 full-time staff positions and a total annual operating budget of $4.79 million (Ministry of Women's Affairs, 2014). Its primary roles include advising the minister of women's affairs on the implications of government policies; monitoring and initiating legislation and regulations in order to promote equality of opportunity for women; and operating a nominations service for the appointment of women to statutory and quasi-government bodies. In addition, the ministry is also required to report periodically back to the United Nations on New Zealand's international commitments on gender status (Mallard, 2003; www.mwa.govt.nz).

Although not the sole agency working in the sphere of women's issues, the ministry has spearheaded gender policy work in the public sector, including strategic work on gender analysis/gender mainstreaming across the public sector in the 1990s; women in leadership programmes, particularly the 'Women on Boards' nominations scheme; improved data on women's lives (especially the development of the Time Use Survey in 1998–99); and changes in key policy areas, including child care, sexuality education, pornography and violence, including rape (Curtin, 2008; Curtin and Teghtsoonian, 2010; Hyman, 2010). The ministry has also highlighted the diverse needs of women through its research and policy work with Māori, Pacific Island and, more recently, minority ethnic women. Since the 2000s women's economic independence has been an area of focus of the Ministry of Women's Affairs under both Labour and National governments.

Despite the array of work it undertakes to draw attention to the issues faced by women, the ministry has no regulatory, enforcement or monitoring roles to ensure adoption of gender-aware policies or approaches in other public agencies.

Policy actor or policy advocate? Shifting identities

Over its 30-year lifespan the Ministry of Women's Affairs has been under continuous pressure to reconstitute its institutional identity and practices. Its early years were marked by explicit community-oriented and feminist-collectivist approaches to its work defined, by its first chief executive, Mary O'Regan, who saw the ministry as an 'insider' for women in communities. In her words, the ministry was a 'bridge' within the public sector:

> [I told women's groups] [w]e have got a symbiotic relationship. You have your networks. You have access to the community and we have access to cabinet. We need each other. We [the ministry] are the bridge. So if we work well together, that's a strong bridge and we can get things done. (Mary O'Regan, interview with the author, 2011)

The feminist/community approach was a stark anomaly in the public sector and very quickly fell foul of government professional standards for bureaucracy. Subsequent appointments to the position of chief executive were career bureaucrats who strove to re-align the ministry with prevailing public management principles and instituted corporate-style governance and accountability structures. By the 1990s, performance management and policy output/outcome measures framed definitions of effectiveness for the ministry and replaced its non-hierarchical community focus (Sawer and Unies, 1996; Teghtsoonian, 2004; Curtin and Teghtsoonian, 2010; Hyman, 2010).

Yet, despite a decade of 'realignment' the ministry's capability to be a strong policy ministry was found wanting, as its feminist roots were judged to be compromising its effectiveness. In a 2003 review led by the State Services Commission, the ministry was castigated for an 'internal culture [that] has been driven more by ideology/advocacy than being evidence-based' and for lacking 'a clearly identified and articulated focus (*it exhibits a mix of advocacy and policy focus*)' (Mallard, 2003, p.3, italics added). The review recommended new leadership (or what it called 'internal enhancement') that would focus on changing internal culture, with a focus on 'public sector values', improved management systems and policy capability.

> The election of a National-led government in 2008 heralded a period of instability and loss of ground for and within the ministry.

There was a turnaround within government in the perception of the ministry's contribution as a public sector agency in the years following that review. The ministry's *Action Plan for Women* (2004), which outlined its strategic vision for improved outcomes for women for the next five years, was received well by other public sector agencies as well as by community stakeholders. By 2007 the New Zealand Institute of Economic Research (NZIER) ranked the Ministry of Women's Affairs as consistently providing high-quality policy advice, and, in fact, judged its policy papers as among the best briefs that it had scored (NZIER, 2007, p.1).[3] The ministry also developed a positive reputation for working in collaborative relationships with other agencies and was an integral member of several high-level taskforces and committees facilitating key processes in the intra-government and community collaborations, including the Taskforce for Action on Violence within Families and the Taskforce for Action on Sexual Violence.

This success as a mainstream policy agency was short-lived. The election of a National-led government in 2008 heralded a period of instability and loss of ground for and within the ministry. There was 'lack of clarity on its main purpose and strategies following the change of government' (State Services Commission, Treasury and Department of the Prime Minister and Cabinet, 2011, p.17), compounded by successive changes in leadership at the chief executive and ministerial levels. Welfare reforms, cuts in community funding, changes in legal aid funding and reporting of domestic violence, and the disestablishment of the dedicated unit progressing pay equity, among other things, created a policy context that was at odds with the forward-looking goals set under the 2004 *Action Plan* (Ministry of Women's Affairs, 2005a, p.3). As the ministry struggled to find its purpose, its effectiveness as a policy agency was compromised. In the NZIER's annual ranking, the Ministry of Women's Affairs' 'mean quality score' for policy advice declined: it fell below its high of 8.11, in 2007, to its lowest in 2010 of 7.50 (and 7.85 and 7.95 in subsequent years). In the 2011 Performance Improvement Framework review led by the central agencies, the Ministry of Women's Affairs was found to be 'needing development' in three out of the five key assessment areas (ibid.).

If the ministry seems to have faltered in meeting the standards expected of it as a public policy institution, it has fared little better in the eyes of women's community groups and gender scholars, particularly following the euphoric early years. As Hyman (2010) points out, its strategy of eschewing a feminist lineage has alienated it from key community stakeholders whose presence, as has been argued, is integral to raising women's issues on the policy agenda (Weldon, 2002; Celis et al., 2008). Through the 1990s, as the ministry developed its sharpened focus as a policy ministry, its role in community funding and its community-orientated focus diminished.[4] In interviews conducted in 2011, women's groups voiced a lack of confidence over what they perceived as growing distance between the ministry and community groups:

> We don't have a lot to do with them [the ministry] really. I personally am not particularly satisfied by what their priorities are. For example, they are doing a huge amount of work on Women on Boards which I'm a little sceptical of in terms of a liberating process. I think it represents a very liberal feminist agenda. (Community-based NGO, interview, 2011)
>
> I don't know there is a great connection between MWA and working women. There is not a lot of engagement at that level. (Women's group representative, interview, 2011)

While it is true that the ministry has ongoing collaborations with selected women's groups, in the main these have been with groups that fall, as Hyman (2010) points out, at the 'liberal' end of the feminist spectrum, and it encourages policy change through accepted institutional practices, notably submissions and writing letters to the minister, thereby clearly distancing itself from a role as an advocacy agency.

Feminist scholars have also pointed to the shifts in the ministry's values towards neo-liberal interpretations of gender equality. Specifically, there was an unmistakable emphasis on 'individual rights' and 'choices', particularly to achieve independence and self-reliance through paid work (Curtin, 2008; Curtin and Teghsoonian, 2010). Kahu and Morgan (2007) demonstrate that the *Action Plan for Women* frames women positively when they are constructed as economically active workers and less so in roles such as motherhood. Alongside this, there is an explicit rejection of 'feminism' as a value framework and its replacement by gender-neutral and family-oriented approaches: 'the feminist approach of the past has given way to a more inclusive set of values recognising the important role that family/whānau and men play in improving outcomes for women' (Ministry of Women's Affairs, 2008, p.10). This repudiation of feminism has continued over the years: in 2014, in the third term of the National government, the newly-appointed minister for women, Louise Upston, announced that she was not a feminist. The Ministry of Women's Affairs' contemporary gender ideology also emphasises women's individualism rather than a feminist collective: 'It is also important for us to recognise that young women today are more likely to shape their thinking in terms of individual rights and entitlements than in terms of social movements' (ibid.).

Neo-liberal and gender-neutral discourses, found in both Labour and National policy framings, individualise women's experiences of discrimination, underplaying the systemic nature of inequality (Simon-Kumar, 2011). Indeed, the reframing of domestic violence using gender-neutral language was criticised in the United Nations Committee on the Elimination of Discrimination

Neo-liberal and gender-neutral discourses, found in both Labour and National policy framings, individualise women's experiences of discrimination, underplaying the systemic nature of inequality …

Against Women 2012 report's concluding observations to the New Zealand government: 'The Committee notes *with concern* … the recourse to gender-neutral language with respect to gender-based violence, including domestic violence' (United Nations, 2012, p.2, italics added). Furthermore, the dismissal of feminism is misplaced at a time when there is social disquiet around issues such as rape, sexual consent, domestic violence, pay equality and poverty in New Zealand, as stirrings of a feminist activist renaissance are emerging in the streets and in social media.

In sum, in the last three decades there has been a transformation of the Ministry of Women's Affairs into a gender technocracy. In the course of this transition, there have been substantial reconsiderations in the way the ministry 'does' policy: who its key stakeholders and client groups are, who it is accountable to, and its understandings of gender bias and equality.

Reviewing 'effectiveness'

Evaluating effectiveness in this climate of shifting institutional identities and ideologies constitutes its own challenge. Success or failure is clearly inseparable from who makes that assessment, whether the ministry is assessed for its institutional efficiency as a policy agency or, further downstream, for the impact of its policies on women. Furthermore, what constitutes 'impact' is heavily reliant on the priorities of the political context of the time.

As a policy agency seeking to mainstream gender into public policy, the ministry has received mixed reviews. Its strategic gender analysis tools appear to have limited uptake within the sector, and, where utilised, appear to lack rigour (Ministry of Women's Affairs, 2005a, 2005b), but by 2008 seem to have become a muted component of the ministry's work (Curtin, 2014). In the mid-2000s the ministry had built a reputation for providing robust policy advice and was placed in the top tier of agencies that provided quality advice, but this success, as noted, lasted only briefly. While its policy advice is still recognised as commendable, as at 2013 it was rated as 'Adequate' by the NZIER (below the categories of High and Respectable).

Gendering policy effectively, however, does not equate to effective gender policy: it is here that the difficulty in demonstrating categorical linkages between the ministry's policy work and positive outcomes for women makes any definitive pronouncements on effectiveness impossible. Perspective is also critical here, as the ministry's various stakeholders carry diverse criteria for assessing effectiveness of outcome. The nominations service is a case in point. This service has continued to receive excellent reviews ('professional and efficient', according to the 2011 Performance Improvement Review). While such programmes undoubtedly are important for correcting women's unequal representation within boardrooms (McGregor and Olsson, 2004; McGregor, 2014), whether a surge of women in leadership will translate into advancing women's broader interests is a complex argument (Phillips, 2009). More immediately, as the community participant quoted above observed, the efforts at boardroom representation appear removed from the everyday struggles of women.

Furthermore, the benchmarks of neo-liberalism – whether that be efficiency goals or cutbacks in social programmes – have proven to be intractable barriers in the pursuit of simultaneous goals of both policy efficacy and gender well-being; indeed, the schism between the two deepens when neo-liberalism is at its most stringent. For instance, in the 2011 review by central agencies, the ministry was applauded for its '[r]ecent support provided to the Minister on potential Welfare Reform' as a demonstration that it has the ability to 'underpin effective interventions' (State Services Commission, Treasury and Department of the Prime Minister and Cabinet, p.13). Yet, by the government's own estimate, the welfare reforms have contributed to a reduction by at least 10,292 in the number of working-age women beneficiaries, while the corresponding reduction in male beneficiaries since the reforms was half that (New Zealand Government, 2014). The instances of ongoing inequalities in the labour market, especially of lower-paid 'female' work and among minority women (see Hyman, 2015) and the persistent poverty of single mothers (Dwyer, 2015), raise important questions about the well-being of women who are no longer on welfare. The reforms have also been treated with caution by the UN Committee on the Elimination of Discrimination Against Women, which seeks assurance that 'the ongoing welfare reforms do not discriminate against disadvantaged groups of women and that an independent evaluation of their gendered impact is made' (United Nations, 2012, p.10). The neo-liberal turn in the public sector and in politics more widely, in fact, is perceived as contributing to the ministry's apparent insignificance in leading transformative gender policy; as a representative of a community organisation commented in an interview, '[the ministry was] dying in a neo-liberal kind of way' (personal interview, 2011).

Despite this culture of neo-liberalism, the ministry has demonstrated the ability to advance women's interests. In large part, its ability to counter conservatism, neo-liberal and otherwise, has been reliant on the political capital it has been able to marshal. 'Insiders' in authority who have championed and led the ministry's policy work have been important in this regard. Ministers of women's affairs with high

> Research has consistently shown that 'newness' and the 'junior' ranking of women politicians compromise their ability to represent the interests of women …

cabinet rankings and a commitment to progress women's work have been pivotal to the advances made by the ministry. The Labour Party's Labour Women's Council was an influential forum for advancing women-friendly policy through well-placed, sympathetic ministers of women's affairs such as Ann Hercus in 1985–87 and Margaret Shields in 1987–90 (Curtin, 2008). But significant policy advances and institutional stability have also been noted during the tenure of National's Jenny Shipley, from 1990 to 1999, and then-Alliance member Laila Harré in 2002–05 (Curtin and Teghtsoonian, 2010). Furthermore, the period of the fifth Labour government (1999–2008), with strong female leadership in government, significantly provided a better climate for progressive and women-friendly politics within which the ministry could be effective.

Ministerial positions after 2008 have not, for any sustained period, been retained by similarly high-ranking female ministers. Research has consistently shown that 'newness' and the 'junior' ranking of women politicians compromise their ability to represent the interests of women, especially if it requires questioning the leadership's policy directives (Beckwith, 2007; Celis et al., 2008; Childs, 2001, 2006; Cowley and Childs, 2003). The 2012 debates around the extension of paid parental leave exemplify these concerns, when the minister of women's affairs Jo Goodhew's position in Parliament was in line with the party view that the government could not make commitments that attracted budgetary liabilities: 'Just because it is a good idea does not mean that the money is magicked up out of fresh air to deliver it. We are concerned at the financial implications of nearly doubling the amount of paid parental leave, which has been proposed in this bill' (Goodhew, Hansard, 25 July 2012).[5] Without the presence of high-ranking Cabinet ministers or, alternatively, strong champions from within the governing party, the ministry is increasingly inclined to advocate for gender equality policy from within the status quo.

Additionally, the loss of other allies and partners working on women's issues in the bureaucracy has further diminished the prospects for the ministry to be effective in ways that challenge the political ethos of the day. The closure of the Pay Equity Unit at the Department of Labour in 2008 and the conversion of its ongoing work into 'further research' by the Ministry of Women's Affairs, and the transfer of the National Advisory Council on the Employment of Women's accountability lines to the minister of women's affairs, signal the emergence of an era of conservative gender politics and re-set expectations about the priority given to women's issues.

> The Ministry of Women's Affairs' 30-year history is a story of remarkable adaptability to the changes in its policy environment.

Regaining relevance

For all the reasons outlined above – evidentiary gaps in causal linkages and shifting ideologies – concepts such as 'effectiveness', 'outcomes' and 'impact' consign the ministry to lacklustre success as a policy shop. Arguably, since its formation the Ministry of Women's Affairs has maintained its relevance through adaptation: it has adopted supportive and facilitative roles with agencies in the public sector, a range of policy strategies that are not reactive but which aim at the long range, and tend to be politically non-controversial. However, in the future the fuller prospects for relevance will emerge from the ministry's ability to navigate through its own contexts of contradiction, negotiating both its technocratic obligations and socially transformative (indeed, feminist) potential.

The first contradiction it faces is in its fundamental gender frameworks. The ministry's potential to provide consistent, first-principles policy analysis – identifying strategic issues, amassing evidence, offering comparative analysis and generating policy actions – is perceived as being compromised by the lack of 'analytical underpinning' (NZIER, 2011, p.4). Gender policy requires encompassing what Woodward (2001) calls the 'irrational': the underlying institutional and societal discriminatory values that are seemingly opaque to reason. In the current climate of ambivalent gender political ideologies and an absence of strategic policy visions (Ministry of Women's Affairs, 2005a), the ministry lacks the political wherewithal to generate viable gender analytical frameworks that grapple with the deep-seated nature of structural discrimination.

The second contradiction relates to the ministry's relationship with stakeholders. The ministry deploys strategic relationship-based policy as a means to encourage gender accountabilities within the public sector. It has gained some repute and success in 'brokering' gender equality policy, creating a culture of 'client focus' within the organisation. The 2011 central agency review noted that much of this focus has been on relationships with other government agencies and with its own minister, and has recommended that the ministry foster 'closer engagement' with 'key non-profit agencies' (State Services Commission, Treasury and Department of the Prime Minister and Cabinet, 2011, p.22). While this mandate offers the ministry an opportunity to rebuild 'bridges' with the community sector, it is important that, to be relevant, such partnerships transcend the established repertoire of public sector interactions – namely, client-focused, brokering or consultative relationships – and instead foster the development of strategic alliances, a space where, as Curtin (2014) notes, women are present at the point of policy problem definition.

A third contradiction relates to the issues that are advanced on the policy agenda. Htun and Weldon's (2010) concepts of 'doctrinal' and 'non-doctrinal' policy issues are useful in this regard.

Based on their global research, Htun and Weldon identified doctrinal policies as those that subscribe to a society's core religious or cultural doctrines and, therefore, are more difficult to make progress on compared to non-doctrinal policies. Extending this frame somewhat liberally to the context of women's policy agencies, one might argue that the Ministry of Women's Affairs faces fewer barriers and greater success in non-doctrinal policy areas: e.g. women in leadership. Despite societal conservatism, the ministry has been successful in doctrinal areas as well: more recently this has been in sexual violence. Although a range of social factors have contributed to putting sexual violence on the policy agenda, the Ministry of Women's Affairs (in partnership with key public and community sector partners) has played an instrumental role in making policy progress in this area. The ability to raise 'doctrinal' matters for policy consideration is an indicator of relevance which satisfies both policy and gender/transformative imperatives.

Conclusion

The Ministry of Women's Affairs' 30-year history is a story of remarkable adaptability to the changes in its policy environment. Whether its legacy of survival as a policy agency has made it an effective institution for advancing women's equality is another – and rather hotly debated – matter. There is still unfinished business here. As it considers its next (hopefully) 30-year journey, 'relevance' for the ministry will require re-envisioning a transformative role in a way that goes beyond the policy advocacy versus policy agency binary. Its challenge will be to enhance its technical gender policy skills while simultaneously engaging anew with innovative pathways of transformative relevance.

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1 The ministry was renamed the Ministry for Women and its minister the minister for women in December 2014 at the time this article was being written. As the change is still in process, and for the sake of continuity with existing scholarship and official documentation, this article will refer to the ministry by its previous name.

2 This data was collected as part of the author's research project 'Engaging Women in Public Policy', funded by a Marsden fast-start grant (2009–12). A range of community organisations were interviewed, including some which work on specifically women's issues (such as motherhood or abortion); some which work in areas where women are disproportionately, but not exclusively, represented (such as violence); and some that do not have gender as their major focus but have particular units or sections which target women's needs in their area.

3 The NZIER's rankings are intended for a specific, limited purpose and are not a comprehensive measure of the merit of policy advice. Their analysis of 'quality' does not engage with the substantive content of policy analysis and instead focuses on factors such as utilisation of graphs and charts, fitness for purpose, structure and organisation, length and turgidity (or what they call 'the risk of a numbers soup'). There are also limitations in the data comparison from year to year, as there is no clear systematic or standardised method for the selection of papers. Furthermore, as the NZIER itself reports, the assessment does not take into account any circumstantial factors which may have influenced the production of a particular brief.

4 The Ministry of Women's Affairs has never had a role in service delivery, which is likely to have contributed to its survival through periods of neo-liberal funding cuts which led to the closure of women's policy agencies in other countries (Teghtsoonian, 2004).

5 http://www.parliament.nz/en-nz/pb/debates/debates/50HansD_20120725_00000032/parental-leave-and-employment-protection-six-months%E2%80%99-paid).

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Geoff Bertram

A New Zealand Perspective on Thomas Piketty's Capital in the Twenty-first Century

Introduction: the basic theory

During much of the second half of the 20th century the disappearance of distributional questions from the mainstream economic literature created little disquiet, because the experience of the period seemed consistent with the notion that market economies could combine growth and reasonable equality, without needing anything more than the normatively-driven apparatus of the welfare state to redistribute income at the margin in favour of the less fortunate. But now political economy is back. Thomas Piketty (2014) has breathed new life into the proposition that capitalism shares with other economic systems an inherent tendency for wealth and power to become concentrated in the hands of a narrow elite, and for the resulting inequality to become entrenched through inheritance. That tendency is found historically in all sorts of non-capitalist economic systems, from the city states of the ancient Middle East (with their ruling castes of kings, warriors and priests) to the modern-day family

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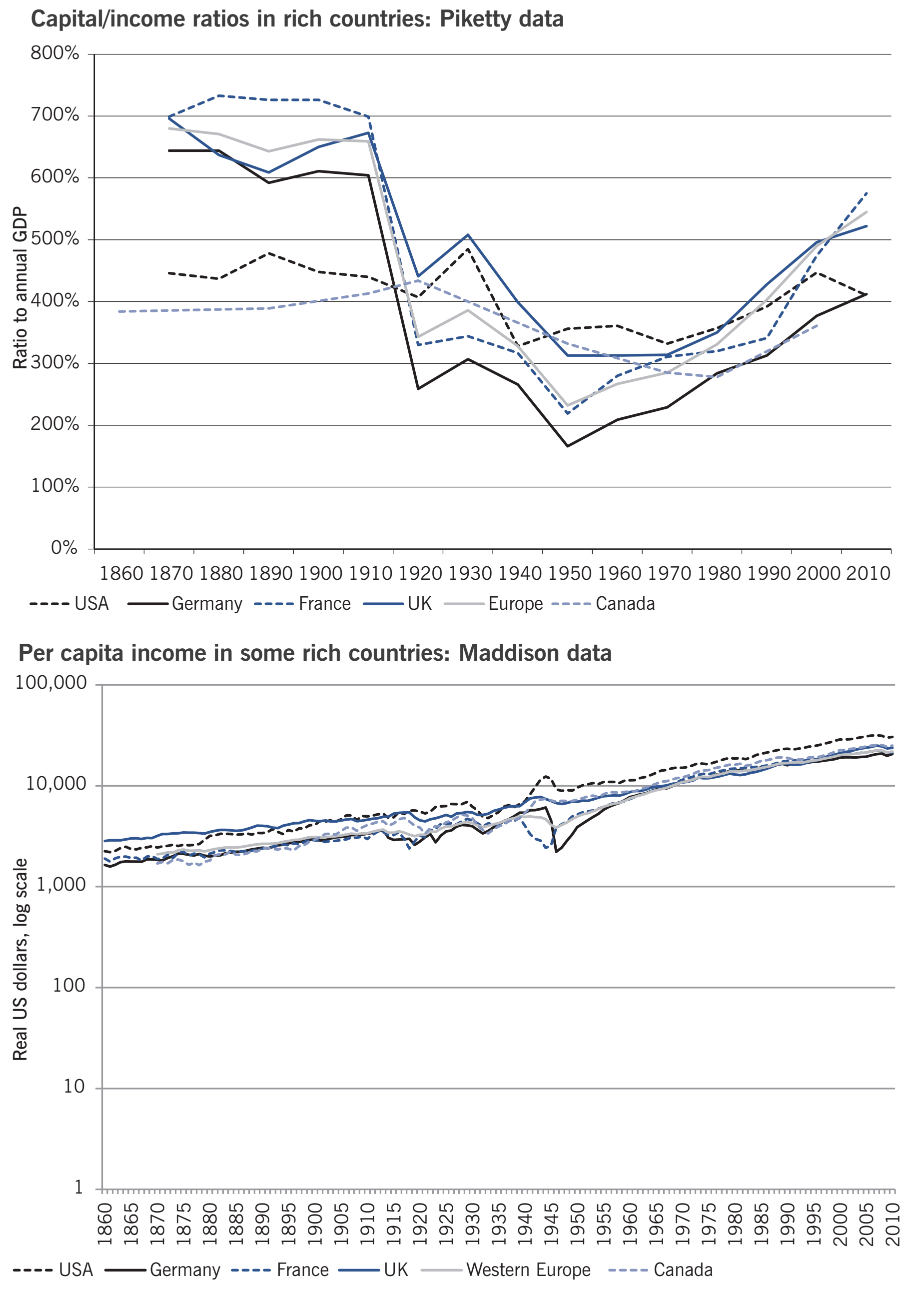
Figure 1



oligarchy of North Korea. The challenge for observers of capitalism over the past couple of centuries has been to determine whether capitalism as an economic system generates dynamic equalising forces to offset the age-old disequalising human pursuit of concentrated power and wealth.

Piketty's answer is no. If one takes away the redistributive apparatus of the welfare state, along with the other particular factors (wars, revolutions, the Great Depression, and sustained rapid growth) that made the 20th century an era of unprecedented equality, the equations that describe the underlying dynamics of capitalism, combined with some plausible propositions about ownership of wealth, predict the re-emergence and entrenchment of dynastic elites holding a commanding share of the economy's wealth, and collecting – as the return on that wealth – a substantial rental share of the national product. In the long run, Piketty argues, capitalism and equality can coexist only if the disequalising dynamics of wealth accumulation are checked by collective will.

Limiting inequality is therefore a central and permanent task for democratic government. Piketty's main policy conclusion is: 'If we are to regain control of capitalism, we must bet everything on democracy' (Picketty, 2014, p.573). So:

(1) Have 'we' lost control of capitalism?

(2) Is uncontrolled capitalism truly headed towards gross inequality and the oligarchy of a patrimonial rentier class?

These surely are questions to which mainstream neoclassical economics ought to have ready answers.

Piketty has made such an impact on the professional world of economists precisely because he has politely but firmly pointed out that the ready answers are not forthcoming. At the same time he has made such an impact on the general informed public because his work has appeared at a time when inequality and growth are central issues in the public mind, and the answers offered by mainstream economists are widely recognised to be unsatisfactory.

Neoclassical economics – the dominant school of economic thought throughout the 20th century – grew out of the great 19th-century debates over the justice of distributional outcomes under capitalism. The neoclassicals' marginal-productivity theory of income distribution asserted that in a competitive market system each of the aggregate inputs to production – labour, capital, land, entrepreneurship – would be paid in line with its direct productive contribution, satisfying the essential test of justice in distribution of the product. As one of the leading developers of the theory put it,

> [W]here natural laws have their way … free competition tends to give to labor what labor creates, to capitalists what capital creates, and to *entrepreneurs* what the coordinating function create … To each agent a distinguishable share in production, and to each a corresponding reward – such is the natural law of distribution …
>
> The welfare of the laboring classes depends on whether they get much or little; but their attitude toward other classes – and, therefore, the stability of the social state – depends chiefly on the question, whether the amount that they get, be it large or small, is what they

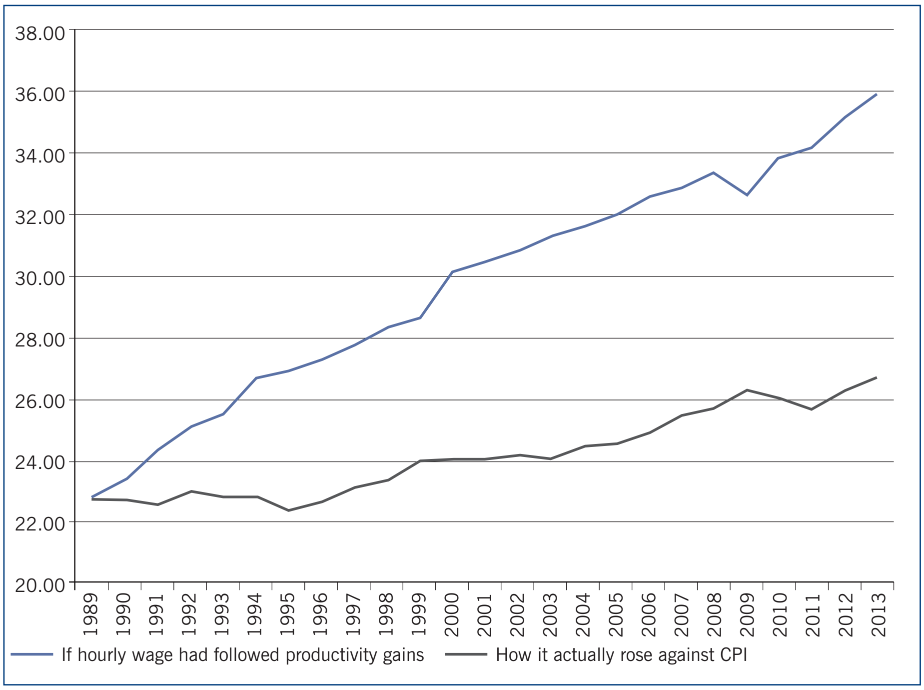
produce. If they create a small amount of wealth and get the whole of it, they may not seek to revolutionize society; but if it were to appear that they produce an ample amount and get only a part of it, *many of them would become revolutionists, and all would have the right to do so.* (Clark, 1899, paragraphs I.5-I.7, emphasis added).

For the neoclassical story to have credibility in explaining the share of the product going to 'capital', there would have to be a clear long-run relationship between capital accumulation and growth of the product. The historical statistics do not show this (see Figure 1). Equally, there would have to be a clear relationship between labour productivity and real wages; in practice that relationship has been missing, at least since the 1970s (for the New Zealand case, see Figure 2 and Rosenberg, 2015).

Piketty simply sets aside the neoclassical hypothesis that the primary income distribution flows from the production process. He replaces it with the proposition that 'capital' – defined to include all assets that yield a reliable stream of income, regardless of whether they are directly involved in productive activity or not – exercises a direct claim to appropriate a share of the product that is determined not by productive contribution but rather by the stock of accumulated wealth multiplied by the long-run rate of return on wealth of 4–5%. The wealth-owners' claim is simply rent, and it is taken not in return for active productive effort but as a property right, enforced by the laws and institutions of private property. Because this rent claim is prior to any other claims, the non-wealth-owning part of the population is left to share out what is left of the product after the rentiers' claim has been met; only at this second stage does the marginal-productivity theory have potential bite.

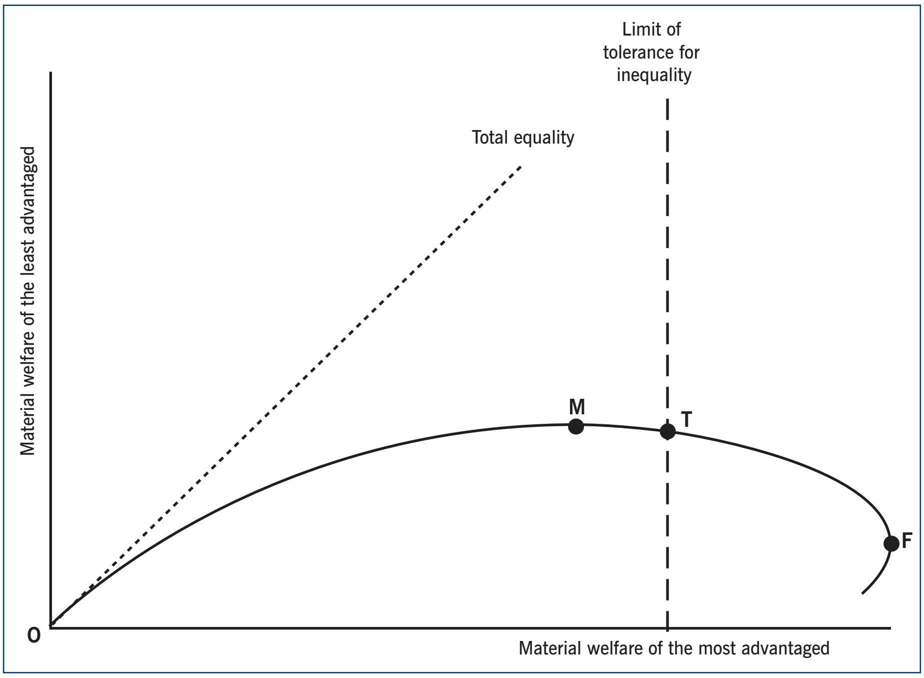
The owners of wealth comprise two groups: those who have worked to earn their fortunes, and those who have simply inherited their wealth (Warren Buffet's 'lucky sperm club'). As today's working entrepreneurs and chief executives

Figure 2 Real average hourly wage compared to productivity gains 1989-2013
Average total hourly wage March 2014 dollars, measured sector



Source: http://union.org.nz/election2014/low-wage-economy

Figure 3: Rawls and Piketty combined

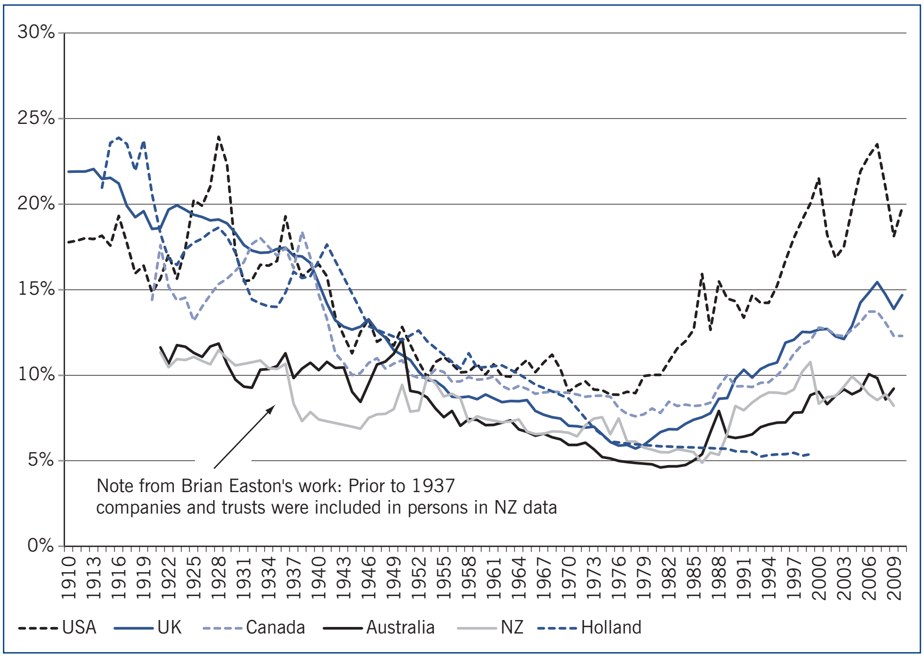


age they become rentiers, and as their heirs take over their wealth, the right to collect rents continually drifts away from whatever original basis private fortunes may have had in productive endeavour.

Of course, if all wealth ('capital') were collectively-owned and the rents equally shared, inequality would not follow from a rising rent share. But private property in wealth, combined with a tendency towards concentration of its ownership (which Piketty predicts on the basis of economies of scale and scope in the management of wealth portfolios) imply an increasing division of the population into haves and the have-nots, until an equilibrium is established in which the ratio of wealth to output is stable. The identification of this equilibrium has been Piketty's central new contribution to economic theory (Bertram, 2014).

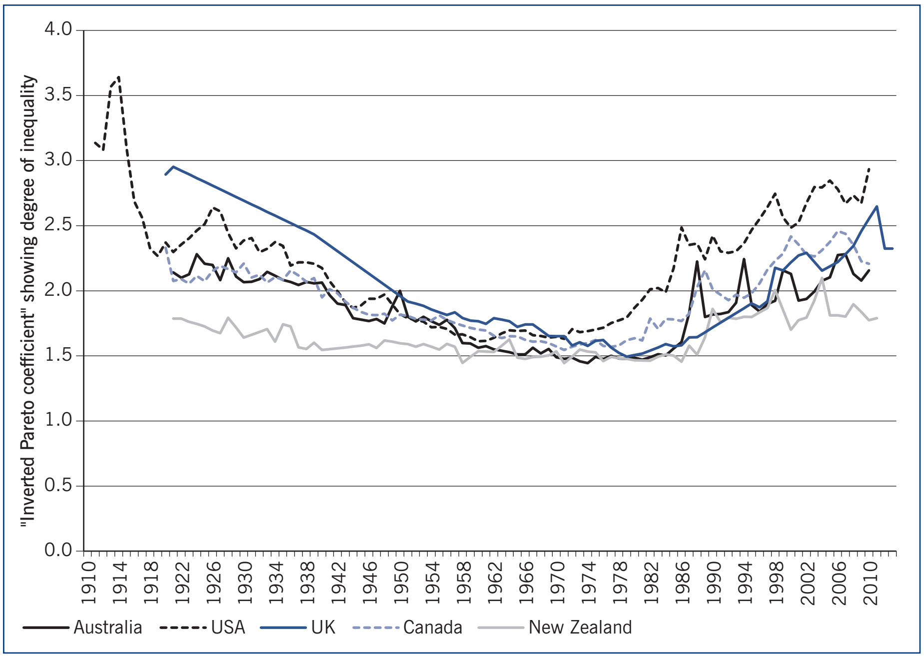
Suppose Piketty is right. Then the possible long-run outcomes can be mapped on John Rawls' prescient diagram

Figure 4: Income share of the top 1% in Anglo-Saxon countries and Holland



Source: data from http://topincomes.g-mond.parisschoolofeconomics.eu/#Database, accessed May 2014

Figure 5: Inequality in English-speaking countries 1910-2011



Source: data from http://topincomes.g-mond.parisschoolofeconomics.eu/#Database, accessed May 2014

(Rawls, 1971, Figures 6 and 8, pp.76-7; Rawls, 2001, Figure 1, p.62; see Figure 3).

The diagram relates the size of the total product to its distribution, showing that over a range of 'social cooperation' from O up to M the welfare of all can be expanded (economists call this a 'pareto gain'). Beyond M (Rawls' 'maximin', where the welfare of the poorest is maximised), the benefits of any further economic expansion go only to the rich. In addition, further welfare gains for the rich can be secured by redistributing income upwards at the expense of the poor. At the extreme point F lies the social order that Rawls characterises as 'feudalism', where the rich cannot be made better off however hard the poor are squeezed.

Piketty's theoretical model identifies an equilibrium for wealth accumulation and consequent income inequality that lies somewhere along the Rawls line – potentially (but not necessarily) between M and F. The big political issue Piketty identifies is whether this equilibrium inequality lies inside or outside the limit of democratic 'tolerance'. If the Piketty equilibrium is to the left of point T, then it is politically as well as economically sustainable. If it is to the right of T, then political unsustainability implies eventual 'euthanasia of the rentier' by some means – either a moderate programme of asset taxes along the lines Piketty proposes, or a more drastic, potentially revolutionary, rupture in the social fabric. The tolerance threshold itself, of course, is not necessarily fixed over time; the political aim of any oligarchy is to shift it right in the diagram, while pro-poor policy activism shifts it left.

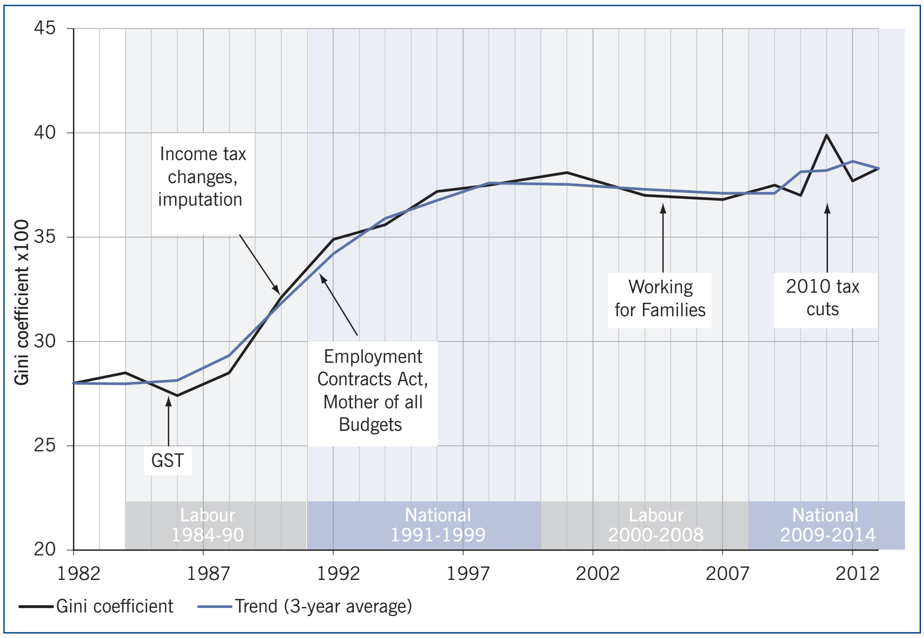
The New Zealand dimension 1: incomes

Piketty's work has been focused on the large developed economies, and the economic dynamics he identifies operate primarily in those economies, with global ramifications as the spillovers from large-country trends flow through global markets. For a small country on the capitalist periphery, the basic policy choice is whether to live with those spillovers, or to insulate the local economy and society from them. New Zealand has conspicuously opted to remain wide open to global forces, and it is therefore not really surprising that Piketty's historical data show distributional trends in this country to have been strongly driven from offshore. Figure 4 traces the income share of the top 1% in the five 'Anglo' economies, while Figure 5 shows the inverse Pareto coefficient (Piketty's preferred statistical measure of inequality) for the same group of countries. These charts show that New Zealand, along with Australia, has been swept along by the rising global tide of inequality since 1980.

Figures 4 and 5 need to be read in conjunction with the now-familiar graph of the New Zealand Gini coefficient since 1982, reproduced in Figure 6. The sharp upward step change in income inequality in New Zealand between 1987 and 1994, with strong concentration of income at the very top end of the distribution, is evident in all three charts. What Figures 4 and 5 make clear is that this was simply a case of follow-the-leaders, after a few years in the mid-1980s when New Zealand lagged behind the dramatic overseas increases in inequality under Reagan and Thatcher in the United States and United Kingdom respectively.

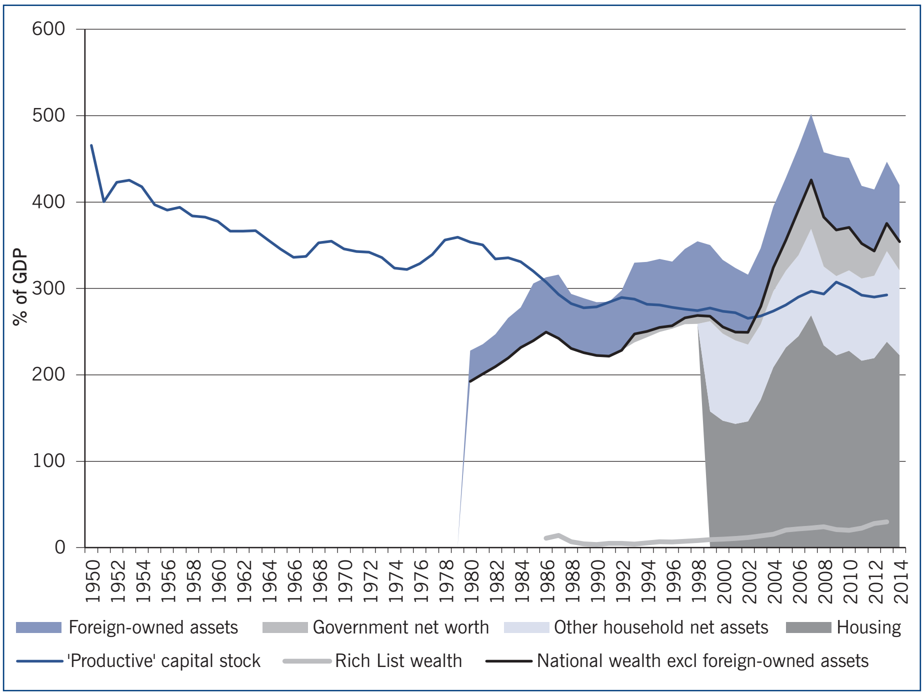
Galling as it may be for New Zealanders who like to think we make our own history, it appears that Roger Douglas and Ruth Richardson were not so much big policy innovators as simply pawns in the new global order. Rather than initiating big economic changes, their key contribution as finance ministers was to facilitate rather than resist global spillovers. Their deregulation, privatisation, slashing of benefit levels, union-busting and destruction of collective bargaining simply sufficed to keep New Zealand in line with the rest of the Anglo realm. Countries that did not join the early drive to inequality – for example, the continental European countries and Japan – were ones whose policy elites resisted the neo-liberal policy tsunami (Atkinson and Piketty, 2007; Atkinson, Piketty and Saez, 2011). Lack of pushback against imported neo-liberal dogma was the central feature of New Zealand policy making in the late 1980s and early 1990s.

Figure 6: Gini coefficient for household disposable income after housing costs, under four administrations 1982-2012



Source: data 1982–2004 from Perry, 2014a, Table D9, p.9; 2007 on from Perry, 2014b, Table D.10, p.109

Figure 7: New Zealand wealth data



The New Zealand dimension 2: wealth

While public discussion of Piketty's work has focused mainly on the distribution of incomes, the long-run core of his model is the accumulation and concentration of rent-yielding wealth, which is what he calls 'capital'. Piketty charts the long-run evolution of his 'capital' relative to national income for the large developed economies, including Australia for 1970–2010, but not New Zealand (Piketty, 2014, part 2). To fill this gap I have constructed Table 1 combining Reserve Bank figures on private household wealth with data on the net worth of government from the Crown accounts, and the international investment position as measured in the national accounts, all measured in years of GDP (shown here as percentages of annual GDP). This procedure replicates in essence the methodology used for Australia by Piketty and Zucman (2014; data set at http://piketty.pse.ens.fr/files/capitalisback/Australia.xls, accessed 19 September 2014). Household and government net wealth are at June of each year,[1] while the GDP figures used as denominator are for March years, and the international investment position is at March of each year. These timing discrepancies imply only minor distortions in the overall figures. Government net worth was not reported prior to 1993 but was below 10% of GDP, which is negligibly small relative to private wealth, which was around 250% (two and a half years) of GDP in the mid-1990s.

Table 1 and Figure 7 show the results. The productive capital stock as conventionally measured is shown also, to emphasise the distinction between Piketty's definition of 'capital' and the conventional measure used for national accounting purposes.

Figure 7 makes clear two key points in the application of Piketty's model to New Zealand:

- The housing stock is the largest component of total wealth, as is true of all the other countries studied by Piketty. It comprises 53% of total

Table 1: New Zealand wealth data

Percentage of GDP

Year	Household net wealth			Government net worth	Total net wealth	Net foreign holdings of New Zealand assets	Total net wealth excl. foreign holdings	*NBR* Rich List wealth	Orthodox capital stock
	Housing	Other	Total						
1980			193	na	193	36	157		354
1981			201	na	201	34	167		350
1982			210	na	210	38	172		334
1983			219	na	219	46	173		336
1984			232	na	232	47	185		331
1985			240	na	240	66	173		320
1986			250	na	250	63	186	11	307
1987			242	na	242	74	169	14	293
1988			231	na	231	63	167	7	282
1989			226	na	226	63	163	4	278
1990			222	na	222	62	161	4	279
1991			222	na	222	63	159	5	284
1992			229	na	229	69	159	5	290
1993			238	10	247	82	165	4	288
1994			244	7	250	81	170	6	282
1995			250	5	255	79	175	7	281
1996			253	4	257	74	183	7	278
1997			259	7	266	80	187	7	276
1998			259	10	269	86	183	8	274
1999	158	104	262	6	268	82	185	9	277
2000	147	101	248	8	255	78	178	10	274
2001	143	97	240	10	250	74	175	11	272
2002	146	89	235	14	249	67	183	12	266
2003	171	87	258	21	279	67	212	14	268
2004	209	88	297	28	324	70	254	16	274
2005	232	89	320	35	356	72	283	20	281
2006	245	94	339	52	390	73	317	22	290
2007	269	100	369	57	426	76	349	23	297
2008	234	91	325	57	382	75	307	24	294
2009	223	92	314	53	368	86	282	21	308
2010	228	93	321	50	371	80	290	20	301
2011	216	95	312	40	352	67	285	23	292
2012	219	95	315	29	343	71	272	28	290
2013	238	105	343	32	375	71	304	30	292
2014	223	98	321	33	354	65	289		

Sources: Household wealth and GDP from Reserve Bank of New Zealand Tables C18 and C21 at http://www.rbnz.govt.nz/statistics/. Government net worth assembled from annual Crown financial statements. Net foreign holdings 1980–88 from Colgate and Stroombergen, 1993, Table 1, pp.14-15; 1989–2000 from Infoshare IIP001AA, and 2001 on from IIP025AA. *National Business Review* Rich List assembled from the annual publications. Capital stock to 1985 from Philpott, 1995, Appendix Tables 1–3, and 1986–2013 from Infoshare SND186AA.

'capital' in New Zealand, compared with 64% in Australia, 57% in Britain, 61% in France, 56% in Germany, 42% in the US and 51% in Canada (data from http://piketty.pse.ens.fr/files/capital21c/en/xls/). Analyses of inequality in wealth distribution, and the consequent distribution of the rent share of the product, therefore need to focus particularly on ownership of the housing stock.

- There is a sharp upward step change visible in Figure 7 between 2002 and 2008. This came a decade later than the step change in income inequality seen in Figure 6; as one would expect, wealth inequality flowed from and followed on from the sharp increase in income inequality. The radical change in the distribution of after-tax income in the early 1990s raised the savings capacity of the top income groups while squeezing the lower income tiers out of saving – indeed, into negative saving in many cases (see Figure 9). Consequently, when the boom in wealth during the 2000s occurred, driven by rapid capital gains as well as by savings of high-income recipients, the benefits were very unequally distributed, entrenching the advantages of the wealthiest groups. One indicator of this is the NBR Rich List's wealth, which rose from less than 2% of total wealth in 1989 to 8% by 2013. (While not statistically robust, the Rich List does capture the very top end of the wealth distribution, and the evidence it offers of growing concentration is plausible.)

When the 1980–2014 New Zealand series for Piketty's beta (total 'capital' measured as a percentage of GDP) are arrayed alongside Piketty's capital-stock data for other countries we obtain Figure 8, which shows that in wealth accumulation as in income distribution, New Zealand has been closely tracking the trend in the other Anglo economies.

Saving and the distribution of wealth ownership

Having shown that there are very strong convergence forces at work pulling New

Zealand into line with the capitalist core countries in terms of the aggregate capital–income ratio and the distribution of income, a final note is in order regarding the local dynamics of wealth accumulation.

Data on saving and household borrowing confirm that household indebtedness has risen very sharply since the benefit cuts and wage-lowering labour market changes of the early 1990s. The Reserve Bank's figures on household balance sheets[2] show their financial liabilities steady at about one-third of GDP from 1978 until 1989, but then surging to 106% of GDP in 2007, on the eve of the global financial crisis. While some of this increase in borrowing was due to home owners cashing in on increased equity as house prices rose, a substantial part is likely to be due to distress borrowing by low-income households struggling to maintain their previous living standards.

Strongly suggestive of the way in which the sharp increase in income inequality in 1988–94 has affected the saving capacity of different groups, and hence their ability to accumulate wealth, are the results of a Statistics New Zealand decomposition of the savings data in the 2007 national accounts, shown in Figures 9 and 10. These show very large dis-saving by the bottom two quintiles of the income distribution, and negative aggregate savings for both wage and salary earners and transfer recipients. Positive savings were concentrated in the top income quintile, and among the groups receiving income from property income and self-employment, most notably the former. Since Piketty's total capital grows both by savings and by capital gains, the combined effect of concentrated savings and capital gains to those already holding assets is likely to have been in the direction of increasing concentration of private wealth.

Conclusion

Although the broad outlines of New Zealand's distributional trends have been imported (along with a neo-liberal policy stance) from the global economy, it is possible to identify the specific local mechanisms at work here that have reproduced the trends in global capitalism

Figure 8: Capital/income ratios in rich countries

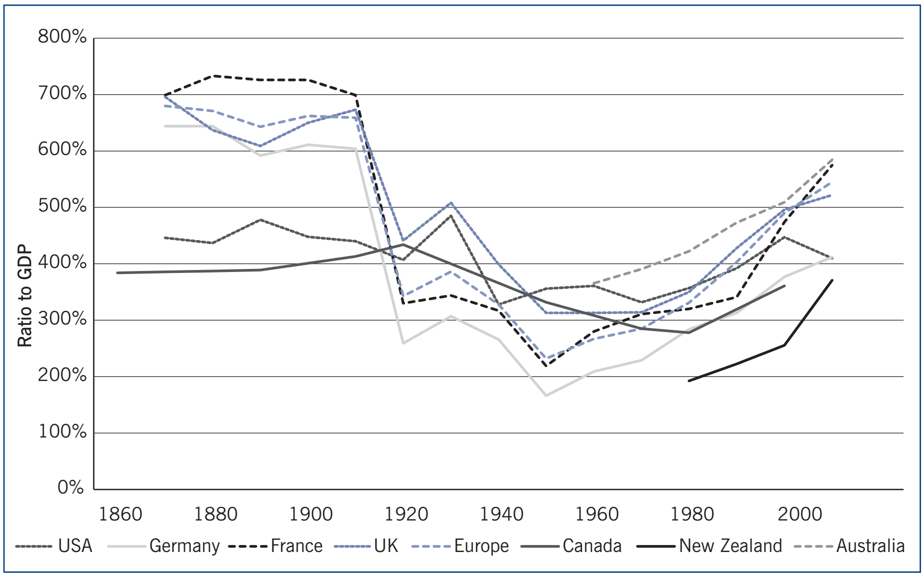
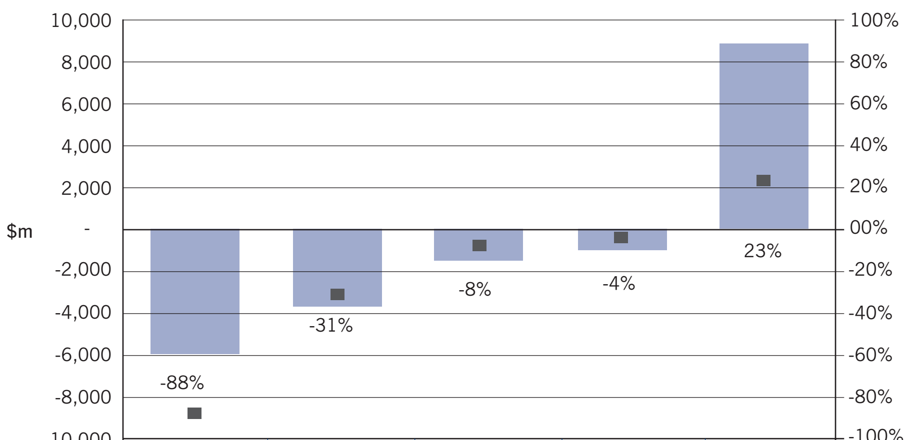


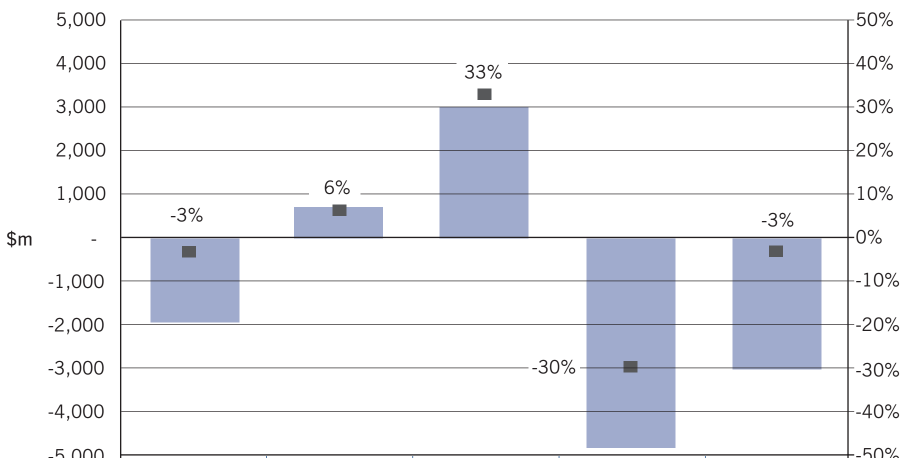
Figure 9: HH gross saving (LH scale) and saving rate (RH scale) by quintile



	Q1	Q2	Q3	Q4	Q5
Saving	-5,917	-3,634	-1,421	-977	-8,910
Saving rate	-88%	-31%	-8%	-4%	23%

Source: Cope 2013

Figure 10: Gross saving (LH scale) and saving rate (RH scale) by main income source



	Wages and Salaries	Income from self-employment	Property income	Transfers & others	Total
Saving	-1,945	711	3,018	-4,825	-3,040%
Saving rate	-3%	6%	33%	-30%	-3%

Source: Cope 2013

identified by Piketty. As an open economy on the global periphery, New Zealand may have less policy freedom than the core economies (where, Piketty acknowledges, even his mild asset-tax proposals look 'utopian' in the current climate of corporate freedom to face down national governments and accrue profits in tax havens). Times do change, however, as Piketty's account of the 20th-century golden age of growth and relative equality under the democratically-constrained 'mixed economy' makes clear. Capitalism and equality can coexist – just not in a policy climate of deregulated laissez-faire and low taxation. Economic growth and prosperity do not require gross inequality of income or wealth – rather, the opposite (Ostry, Berg and Tsangarides, 2014) – and wider local policy options should open up as the tide of global opinion swings against neo-liberalism.

It is not clear at this point, however, how great the tolerance of the New Zealand public for growing inequality will prove to be (see Morrison, 2015). The 2014 election results seem to indicate that the limits of democratic tolerance have not yet been approached. But if the disequalising dynamics predicted by Piketty continue to run their course overseas, the case for re-establishing a more autonomous policy realm in this country can be expected to strengthen.

1 Prior to 1998 the Reserve Bank of New Zealand household wealth series are at December of each year; for the purposes of Table 1 I have estimated the June figure as the mid-point of the preceding and following December numbers.

2 http://www.rbnz.govt.nz/statistics/tables/c18.

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Brian Easton

DISTRIBUTION OF Pre-Tax Top Personal Incomes

The purpose of this article is to present some data on top pre-tax personal incomes in New Zealand. It updates an earlier article by a year to 2011/12 and extends the estimates in it back to 1936/37.

The background to this article is the international database of incomes assembled by Facundo Alvaredo, Tony Atkinson, Thomas Piketty and Emmanuel Saez (Alvaredo et al., 2013), which reports their estimates for New Zealand of the pre-tax personal income shares of top income groups based on published Inland Revenue (IRD) sources. However, there are a number of deficiencies in their series: the definitions of who are taxpayers change (particularly, before 1936/37 the data coverage includes companies); the definition of income varies (the imputation of dividend income from 1990 makes no essential difference to the actual income taxpayers received, but it affects after-tax income); not all adults are recorded in the tax statistics (those who are varies in different periods); and not all personal income is recorded (again, that which is recorded varies). As a consequence, the Alvaredo et al. estimates show changes in the New Zealand income distribution that are statistical artefacts or the result of discontinuity in the data.

This article uses the same IRD primary data to construct more consistent estimates. This is not to minimise the overall statistical achievement of Alvaredo et al. (although it reminds us that all their data series need to be used with caution), nor to criticise Piketty's theoretical analysis.

Figure 1 presents new calculations for the same three groups from 1936/37 to 2011/12.

Figure 2 shows the estimates of the Pareto coefficient for the top of the New Zealand distribution.

Definitions

Who?

The calculations are for people who are adults (aged over 15). As far as possible the data to be presented excludes trusts and companies and other such legal artefacts. Covering all adults deals with the problem that the IRD database does not include all income recipients. While taxpayers were 98.2% of the adult population in 2012, in 1936/37 only 12.0% of adults were

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Figure 1: Shares of top income in disposable income

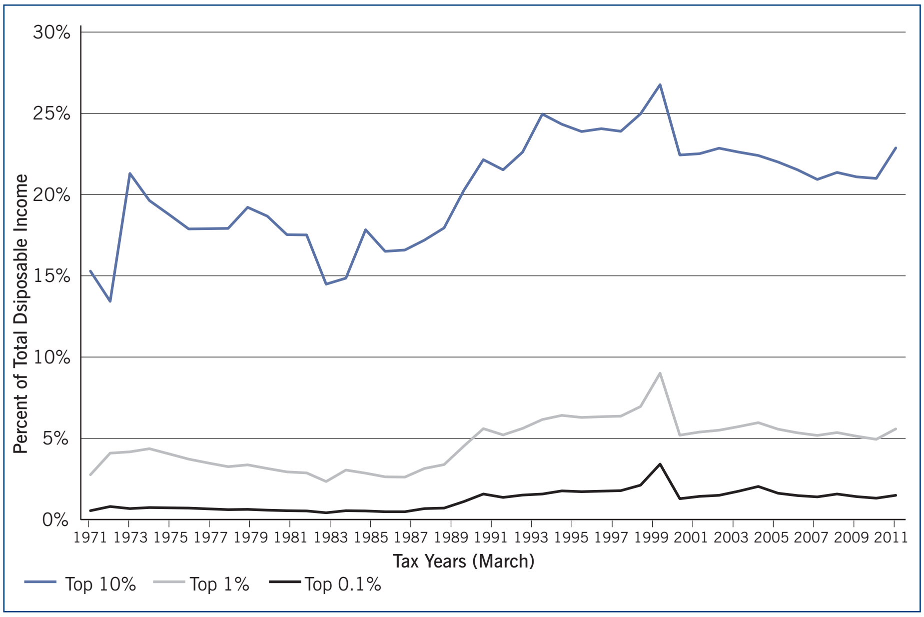
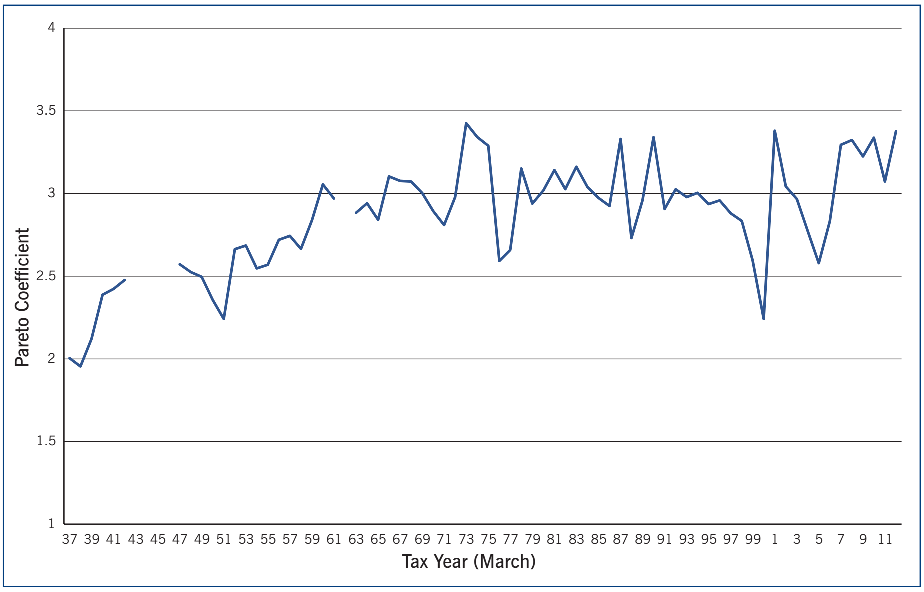


Figure 2: Pareto Coefficient (Tax Reported Top Incomes) *adjusted for dividend imputation*



taxpayers. This standardisation also allows for the impact of women joining the paid labour force – a very important post-war phenomenon.

The figures are for people legally resident in New Zealand for tax purposes. There is more below about adults with anomalous residential status.

What?

The figures are for income, not wealth. We do not have detailed information on top wealth.

Disposable or market incomes?

Ideally we would report market incomes. In practice, the data being used is income reported for income tax purposes. It corresponds to market income (aside from the definitional issues discussed below), but at the top there may be a little contamination from New Zealand Superannuation. Further down the income distribution, beginning from the late 1970s there would be some contamination from taxable social security benefits, but, as explained in the next paragraph, this does not matter because of the choice of denominator.

To be compared with?

Not all market income is reported for tax purposes. This was particularly so in the past when not all individuals filed tax returns, and Inland Revenue had no other means of identifying their income. Instead, these estimates use as a denominator total private market incomes as measured in the national accounts. Thus, social security benefits are not included in the denominator. Conveniently they almost solely accrue to those below the top 10% (New Zealand Superannuation aside). Unfortunately, there is a detailed series of total private market incomes only back to 1980/81. For the period before then the denominator is projected back using national accounting estimates of private income.

The effect of adjusting for a consistent series of all adults (and not just taxpayers) and all market incomes (and not just incomes reported for tax purposes) is to lower the estimates of the top income shares relative to those of Alvaredo et al. Moreover, because the ratio of taxpayers to adults and the ratio of taxable income to total market incomes vary over time, the trends between the series may differ.

How far back?

To 1936/37. Earlier tax data does not separate out those who are not natural persons, such as companies, from the information on natural persons.

Consistent through time?

Perfect consistency is not possible given the nature of the data; in particular, it is not possible to allow fully for all the changes in tax law.

One tax change which complicates the data is the treatment of corporate dividends. Until 1989 they were 'double taxed'. Corporations paid tax on their profits, and their dividends paid from the tax-paid profits were treated as taxable income of the shareholder. From 1989 there has been a dividend imputation system, in which a shareholder receiving a dividend from a company is entitled to an 'imputation credit' which represents tax paid by the company and is offset against the shareholder's income tax liability. In effect, corporation tax becomes a withholding tax for shareholders' dividends. This altered the way dividends are recorded by the IRD. For example, $100 of corporate profits which was taxed at, say, 33% and fully paid out was recorded as $67 of pre-tax income before imputation, but as $100 after the new regime was introduced. Thus, the taxpayer's recorded income went up even though there was no actual change in their market income. In order to get consistency over time the estimates treat the grossing-up of these dividends as the substantial tax break that it was, rather than an increase in market income; that is, the imputation income is omitted. Alvaredo et al. do not make this adjustment, which results in their series showing an artificial increase in income share in the late 1990s from a change in measurement, rather than from any fundamental change.

There are other changes which it has not proved possible to adjust for, including:

- Prior to 1988 taxable income was declared net of deductions for private superannuation contributions; after 1988 these contributions were no longer deductible.
- When there was no tax on fringe benefits, many of the highest-income earners received income via subsidised loans, company cars, etc. Fringe benefit tax will have increased the amount of personal taxable income declared once income-in-kind no longer received a tax advantage.
- In the early 1980s there were big tax write-offs for investments in tax shelters, and special partnerships encouraging people to invest in these tax shelters. Investment in kiwifruit farms, emu farms and forestry are examples. These holes in the tax base, in combination with high marginal tax rates, provided big incentives for people to invest in ways which led to low reported incomes.

The effect of these will have been to reduce apparent inequality in the early 1980s (and perhaps earlier). Once they had been eliminated (by the late 1980s), they do not change the level of inequality over time. These effects will not be nearly as great as the change in the treatment of corporate dividends.

What part of the income distribution?

Reported here are the income shares of the top 10%, 1% and 0.1% of adults; also the Pareto coefficient (explained shortly).

Given these limitations, why bother?

Because it is there, one supposes. Given the use of such data series in Piketty's book, it is important to consider what has been happening in New Zealand. This is reporting the best data available. Robert Solow famously justified some statistical work he was doing by citing the addicted gambler who knew 'the casino wheel is crooked but it is the only one in town'. At least he knew what he was doing.

Benchmarks

The following 2012 tax year benchmarks may be useful:

- There were about 3.5 million adults over the age of 15. So, the top 10% of income recipients numbered 350,000, the top 1% 35,000 and the top 0.1% 3,500.
- 10% of adults had an income above about $72,500, and a 37.4% share of all income; 1% of adults had an income above about $165,000 and a 9.7% share of all income; 0.1% of adults had an income above about $500,000 and a 2.7% share of all income.
- The annualised average wage was around $45,000, while the average adult income was $36,000.

The Pareto coefficient

Vilfredo Pareto famously proposed that upper incomes followed a power probability law characterised by a single parameter, the 'Pareto coefficient'. This indicates how compressed the top tail of a distribution is. The lower the coefficient, the more unequal is the distribution; that is, the top tail is more stretched out.

Pareto coefficients are always in excess of 1. If the coefficient is 2 and there are 1,000 people above income $X, then there will be 250 people above $2X. But if the coefficient is 3 there will be only 125 people above that income, the smaller number indicating that the distribution is more equal. The strength of the Pareto coefficient is that it usually represents well the top of a distribution, while the rest of the distribution need not be known. Its weakness is the converse.

Figure 2 above shows the Pareto coefficient for top incomes between 1936/37 and 2011/12. Initially it starts low at around 2.0. The average of 17 OECD countries in 2005 came to 2.1; on this measure New Zealand was about as unequal at the top before the Second World War as is typical for an OECD country today. The coefficient then steadily rises to about 3 by 1960. Over the entire period it averages about 2.9: high compared to many other countries, which implies lower top inequality. It then runs at this 3-ish level from the early 1960s to the end of the 1980s, after which it perhaps begins to rise, indicating a trend to reduced inequality.

An explanation for the reasons for this pattern comes after the following section on income shares.

> From the 1980s on the early post-war drivers towards less inequality were no longer there. Full employment, as we understood it in the early post-war era, no longer existed.

Top income shares

The pattern for the top 10% of adults in Figure 2 is the converse of the story of the Pareto distribution. They have a high share of around 35% of all market income from just before the Second World War. A 35% share means that the decile had an average income 3.5 times the national adult average. A 25% share would mean 2.5 times the national average. The 35% level continues until about 1959/60, and then falls to 25% in about 1980. The top decile's share then stagnates through the 1990s, since when it has been increasing slightly.

The patterns for the top 1% and top 0.1% are broadly the same as for the top decile, except that there is no evidence of their share increasing in the last two decades.

There is probably not a lot to be gained from a year-to-year analysis, because of sampling variability. Observe that there is little evidence in the data of a business cycle – perhaps surprisingly.

- There seems to have been compression in remuneration margins within the labour force.

What happened after 1990?

From the 1980s on the early post-war drivers towards less inequality were no longer there. Full employment, as we understood it in the early post-war era, no longer existed. Probably our 'normal' level of unemployment will be similar now to that of other rich market economies. The post-war migration of women into the paid labour force and Māori into cities is largely over. The institutional mechanisms which enabled wage compression have been largely abandoned. So, the increasing inequality which characterised the first four decades of the post-war era came to an end. The market (tax assessed) income inequality largely stabilised. However, the share of the top 10% seems to have marginally increased (although it is volatile), suggesting some increases in overall inequality. Yet the Pareto coefficient also increased, which is in the opposite direction, suggesting a *reduction* in inequality among top incomes.

These apparently contradictory results can be reconciled if the strong increase in shares has been accruing to those in the second to the tenth percentiles. That would compress the top of the income distribution as indicated by the mildly-rising Pareto coefficient. Since the very top is far more influenced by rewards to capital, while below them there is a greater impact from the remuneration to top managers and professionals, it would seem that in the last few decades the rewards at the top of the labour market have risen relative to the rewards to ordinary labour. Piketty observes this effect too.

One local factor may have been the 1988 State Sector Act, which abandoned the rigid relativities that existed in the public service, enabling higher relative remuneration to the top civil servants, while most civil servants were experiencing restricted real increases (or declines). The same thing was happening in the private sector, a consequence of the globalisation of the market for management and higher professionals.

Unfortunately, we cannot estimate the magnitude of the margin increases in order to assess to what degree that explains the rest of the upshift.

If this hypothesis is correct, then the driver of the recent increasing inequality is widening labour earnings rather than increases in the return and quantity of wealth.

… there has been increasing public concern about the extent to which those on top incomes are influencing the political process.

The 2000 blip

There is a definite blip in the income shares in the 1999/2000 year, indicating an increase in inequality. The top income tax rate was increased from 33% to 39% for the 2000/01 year. Many taxpayers arranged their income flows from private companies to move income from the high tax year back to the lower tax year, temporarily raising income in 1999/2000 and lowering it in the following year.

Why did inequality measured at the top decline in the first part of the post-war era?

There was a secular decline of the share of top incomes in the first 40 years after the Second World War. Its causes were probably more related to the remaining 90% of adults and cannot be tracked from this data basis. However, other work I have done suggests that the most important driver was the impact of full employment in the period. It operated through the following four channels:

- Male labour force participation rose, essentially out of unemployment.
- Female (paid) labour force participation rose dramatically as changing household circumstances and domestic technologies made it easier to (also) work outside the home.
- Māori migration from the countryside into the urban centres increased their market incomes.

What about the Piketty thesis?

First, note that New Zealand's high-income recipients have low incomes compared to those overseas. Our top 0.1% are about 3,500 individuals who reported annual taxable incomes of $500,000 or more in 2011/12. Around 700 would report incomes in excess of $1,000,000.

New Zealand does not seem to follow the Piketty thesis of rising inequality in top incomes. But this would be to adopt the Piketty thesis crudely. New Zealand has no sophisticated financial sector. That means no mega-remunerations. (There is no general agreement within the economics profession as to why this is happening.) But the Piketty effect is even more explained by patterns of wealth accumulation and returns. We do not have the New Zealand data to explore this directly.

There are, of course, measurement problems. The data series since 1981/82 are of higher quality. However, there are omissions. The data series does not cover trusts. Apparently, trusts have become more common since the ending of inheritance tax in 1992. Nor does it cover private companies, which the 2000 blip indicates may be important. Income reported for tax purposes does not cover most capital gains. There is often confusion about the effect of omitting capital gains. Unquestionably, including them would increase the level of income inequality. On the basis of the handful of countries for which there are estimates, the inclusion of capital gains might add about one percentage point to the share of the top 1%'s income – say, increasing their share from 5% to 6% of private income. However, while the omission of capital gains reduces the measured inequality, it does not automatically follow that it disguises increasing inequality. It is not impossible that capital gains were smaller after the global financial crisis than before it, in which case inequality of top incomes may hardly have been changing at all. We just don't know.

The big issue which may make the data difficult to interpret is what may be called 'partial New Zealand residents'.

Non-residents

Under New Zealand tax laws, those with high incomes can avoid declaring offshore income for taxable purposes by avoiding being New Zealand tax residents. The criteria for being a New Zealand tax resident are:

- living in New Zealand for more than 183 days in any 12-month period, or
- having an 'enduring relationship' with New Zealand, or
- being away from New Zealand in the service of the New Zealand government.

People who are not New Zealand tax residents are liable for New Zealand tax only on their New Zealand-sourced income. Such non-residents report their taxable income in an IR3NR return. They are not included in this data. There is no long-term series for them, but tax payable from this source is currently around $30m-$40m per year, suggesting an annual income of around $100m; this would be only a portion – often a small proportion – of the non-residents' total income.

New Zealand is such a small economy that those with very large fortunes are likely to hold wealth portfolios diversified by jurisdiction. It is not implausible that for many less than a third of their income comes from New Zealand sources; only that part is reported in the tax statistics. Given increasing international mobility, it seems likely that an increasing proportion of those at the very top of the income distribution are not tax residents. If so, any Piketty effect of a growing elite of the rich is likely to be missed in the New Zealand tax data.

Politics and market incomes

Disraeli summarised privilege as 'pay, patronage and power'. Recently there has been increasing public concern about the extent to which those on top incomes are influencing the political process. Underlying this concern is the ideal of democracy being about 'one person one vote', whereas market activity is about 'one dollar one vote'. In practice, the two areas of public life cannot be so easily separated, so one can infringe excessively upon the other. For instance, it is now generally accepted that before the mid-1980s, politics was too involved in market decisions. But can the opposite happen? This is an evident political concern in the United States; does it apply in New Zealand? This is a wider issue than this article can cover in detail, but here are a few pointers.

It is an interesting feature of New Zealand's electoral system that at the 2014 election we had three minor parties openly backed by millionaires. Each was dependent upon the threshold effect which our MMP electoral system allows. Many think the threshold is an anomaly; perhaps it becomes even more anomalous if it enables millionaires to buy seats in Parliament.

Perhaps political donations are more in the spirit of democracy if they are transparent. It is not obvious they are sufficiently transparent in New Zealand.

The rich also have the ability to buy acolytes to promote their political views. Again, transparency of funding sources may be vital, but perhaps it would be better to develop institutions with an alternative view rather than have the lopsided funding of lobbying which currently dominates New Zealand.

It also appears that some of those who are not tax residents play a significant role in New Zealand political life as donors, as political advocates and as lobbyists (and as voters). Given that taxation is the price of citizenship, is this appropriate? Perhaps such political activities amount to having an 'enduring relationship' with New Zealand.

Conclusions

The series presented here using pre-tax income data show that the share of those with top incomes fell up to the end of the 1980s, while top incomes became increasingly compressed. Shortly after, there were increases in inequality arising from increases in remuneration margins for management and professionals, and from the introduction of a dividend imputation system. There have been small or no increases in inequality since.

Calibration difficulties make international comparisons difficult, so we must be cautious about ranking New Zealand's top income inequality with economies elsewhere. However, there is no evidence of a major surge in inequality of pre-tax market incomes in the New Zealand data in the first decade of the 21st century, such as has occurred in the United Kingdom and the United States, probably because New Zealand does not have as sophisticated financial sectors as they have, and because New Zealand's wealthy may function – for some purposes – outside the country.

Acknowledgements:

Geoff Bertram and Sandra Morgan assisted with this article, without being implicated in any errors or opinion. Thank you.

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Alvaredo, F., A.B. Atkinson, T. Piketty and E. Saez (2013) *The World Top Incomes Database*, http://topincomes.g-mond.parisschoolofeconomics.eu/#Database

Brian Easton

Top After-Tax Incomes

The purpose of this article is to present some data on top after-tax incomes in New Zealand. Thus it is a companion to the preceding article in this *Policy Quarterly*, 'Distribution of pre-tax top personal incomes', which looked at before-tax incomes. That article found that there had been little change after 1981 in the market (before-tax) income shares of those on top incomes. This article reports that, nevertheless, those on top incomes had dramatic increases in their after-tax incomes and shares of total after-tax income in the late 1980s and early 1990s. Since there was no change in pre-tax market income shares, these increases were due to changes in relative tax rates.

Note that this article traverses the personal income distribution, not the household distribution, which may involve more than one person and children (Perry, 2014). As such, it parallels the work of Alvaredo et al. (2013), which Thomas Piketty uses in his *Capital in the Twenty-first Century* (2014).

The article also explores the political and social consequences of the increased share.

Data sources

The primary data source is provided by Inland Revenue (IRD), which derives the personal income (before and after tax) distribution from a sample of actual returns. As such, it covers only income reported for tax purposes. It therefore excludes income that is not taxed (such as capital gains and pension income in some years) or is attributed to other entities (such as trusts and private companies). Residents for tax purposes report all income, but those who are deemed non-residents report only their New Zealand incomes.

The IRD provides a consistent series back to the 1980/81 (March tax) year. Data for earlier years can be derived from Department of Statistics publications *Incomes and Income Tax* (various years). However, before the 1970/71 year social security tax was not included in the database because it was levied separately. Thus this analysis only goes back to the 1970/71 year, when social security tax was abolished. The year refers to the year of the return, not the year in which the income was generated, which is often a year earlier.

For various reasons – such as those on lower incomes not having to file returns – IRD returns may not cover all income recipients. This does not affect those on top incomes, but totals in the database do not cover total income. Instead, the share of the income of the top is compared with household disposable income as reported in the national accounts. (Note that this has the effect of treating benefits and the

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like as negative income taxes.) Data is reported below for the top 0.1%, 1% and 10% of all adults (those aged over 15). This avoids the omission at the bottom of the IRD database. In the 2012 year the three groups represented about 3,500, 35,000 and 350,000 people respectively. Further details of the database and the method are reported in the preceding article.

Results

The overall results are shown in Figure 1.[1] Essentially, the pattern is that after-tax income shares are stable for the three groups over time, except that the shares lifted markedly between the late 1980s and early 1990s. (In summary, each group's graph shows two plateaus with a sharp scarp between them.)

It is possible to tell a more refined story within the two outer periods, but for our purposes the dramatic change is the lift between 1987 and 1993.[2] It is summarised in Table 1.

The table may be interpreted as follows, illustrating the pattern with the top 0.1% column. In the period before 1987 the top 0.1% had 0.62% of total household disposable income (which meant their average income was 6.2 times the adult average). After 1991 their share averaged 1.68% (so their incomes averaged 16.8 times the adult average). This represented a relative increase in their income of 169%. Thus, the share in the later period was more than two-and-a-half times what it had been in the earlier period, but not three times. The absolute gain amounted to $1.43bn in 2011/12, equivalent to $6 a week per New Zealander (including children).

The gains to those below the top 0.1% are proportionally smaller, but larger in absolute terms because more people are involved. Although the boost to the top 10% (including the 0.1%) is only 25%, the absolute gain is $7.4bn, the equivalent of about $32 per week per New Zealander. Summing the additional income over the last 20 years (and ignoring interest and inflation), the top 0.1% had an extra $19.8bn, the top 1% had an extra $46.8bn and the top 10% had an extra $98.7bn more disposable income than at the old tax rates. The top 10% includes

Figure 1: Shares of top income in disposable income

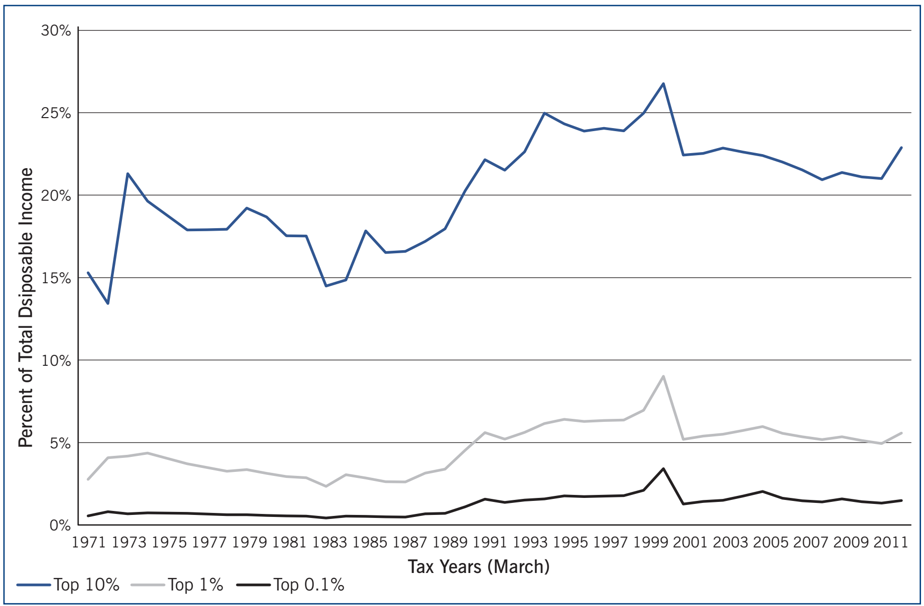

Table 1: Shares of top income groups in household disposable income

	Top 0.1%	Top 1%	Top 10%
1970/71–1986/87	0.62%	3.4%	18.4%
1991/92–2011/12	1.68%	5.9%	22.9%
Increase	169%	78%	25%
Absolute gain 2011/12	$1,430m	$3,620m	$7,420m

the top 1% with their greater gains. The proportional increase in the share of those in the top 2–10% is 13% (or about half of that for the top decile as a whole). The big gains are to the top 1%, who got about as much as the remaining nine-tenths of the top decile.

The impact of taxation

Since, as observed in the earlier article, there have been no dramatic changes in the distribution of pre-tax market incomes, the change in disposable income shares reflects reductions in the relative incidence of taxation. There were two main ways in which this happened.

The flattening of income tax rates

Before 1987 effective marginal tax rates on top incomes averaged over 50% (the official rates were as high as 66%), but after 1991 the rates were below 40%: they were 33% in the 1990s and after 2009; they were 39% in between.[3]

Imputation of corporate taxation

Until 1989 it was said that corporate dividends were 'double taxed'. Corporations paid tax on their profits, and their dividends paid from the tax-paid profits were treated as taxable income of the shareholder. To illustrate, suppose the tax rate is 50% and all the after-tax company profit was remitted in dividends. The calculation would appear something like this:

Company profit before tax	= $100
Less tax on profit at 50%	= $ 50
Company profit before tax	= $ 50
Dividend	= $ 50
Less tax on dividend at 50%	= $ 25

Thus, the shareholder would only receive 25% of the original company profit.

From 1989 there has been a dividend imputation system in which a shareholder receiving a dividend from a company is entitled to an 'imputation credit', which represents tax paid by the company and is offset against the shareholder's income tax liability. The previous tabulation becomes:

Company profit before tax	= $100
Less tax on profit at 50%	= $ 50
Company profit before tax	= $ 50
Dividend	= $ 50
Imputed tax on profit	= $ 50
Total income reported to IRD (sum of previous two lines)	= $100
Tax calculated on reported income at 50%	= $ 50
Less tax already paid by company	= $ 50
Additional tax to pay	= $ 0
Net difference between before and after the introduction of imputation of corporate dividends:	
Gain	= $ 25

Critical changes in social and political behaviour are associated with, and almost certainly (in part) a consequence of, the shift in the after-tax distribution.

Thus, the shareholder pays no additional tax on dividends in this example and corporation tax becomes, in effect, a withholding tax for shareholders' dividends.[4] So shareholders pay less tax under an imputation system. The two effects explain the marked fall in tax rates on top incomes in the late 1980s and early 1990s. Despite there being no marked change in the before-tax shares of those at the top, there was a dramatic change in their after-tax shares.

Were the tax reductions fair?

Economists rarely have much expertise in judging fairness. We therefore avoid making this judgement, merely observing that in the late 1980s and early 1990s there was a considerable shift in the after-tax income distribution towards the rich. This is not a new observation. The shift was first measured two decades ago, but it was observed via the household adjusted disposable income distribution. That measure is based on a sample survey of households and cannot assess changes at the top with any precision. It found that over the last decades there has been a 20–25% increase in the income share of the top 10% of households (from about 20% in the early 1980s to 24–25% more recently) (Perry, 2014). All of the significant shift occurred in the late 1980s and early 1990s, and was attributed to the reduction of income tax rates.

This article reports on the personal rather than the household distribution. There is not a simple relation between the two: households may have more than one income recipient, and may contain other adults and children. Even so, the share of the personal distribution of the top 10% increased 25%, suggesting a similar increase to household incomes despite the results being drawn from quite different databases. (That the change occurs at about the same time is less surprising.)

While this cross-check is useful (and comforting), the important finding from this research is that those at the very top experienced far greater income increases than is evident in the household income distribution with its necessarily coarser groupings.

Was there an impact on economic growth from the redistribution?

The sort of tax redistribution observed here is sometimes justified in various ways, such as that it provides the investing class with more income to save and invest and increases the rewards for risk-taking and innovation by the entrepreneurial class. Two decades after the changes, there is little evidence that this happened in New Zealand (although there are caveats). Most fundamentally, there is no evidence that as a result of the policy changes made in the late 1980s and early 1990s New Zealand's economic growth rate increased, as was promised by the advocates. Once the Rogernomics recession was over in 1995 the economy grew at the same rate as it had before the measures were introduced.

Now it could be argued that the tax reductions on the rich accelerated economic growth but that the effect was offset by less successful measures (which?). However, the promise of growth would also predict that, following the tax reductions, the market (pre-tax) share of those on top incomes would increase. It didn't (see the preceding article). This is puzzling. One might have expected that the additional disposable income would have led to greater savings, and that the consequent return on the investment would have boosted the incomes of those at the top even further.

Among the possible explanations are:

- there was greater investment but it was offshore and does not appear in the growth data (nor in the tax base if the beneficiaries switched their status to non-resident for tax purposes);
- the increased income is not reported for tax purposes because it has disappeared into capital gains, private companies and trusts, for instance;
- some of the investment would be in housing (more below);
- the rich have been getting a poor return on their investment (possible);
- their savings rate has not been very high (discussed below as patterns of consumption).

There is an additional important caveat. Top income tax rates were falling in many other parts of the rich world. For a variety of reasons – the most important being the international mobility of highly skilled labour and big investors – it is impossible today to isolate the New Zealand tax system from the rest of the world and maintain high tax rates here out of line with relevant competitors; economic insulation is not what it was once.

Social and political consequences

Critical changes in social and political behaviour are associated with, and almost certainly (in part) a consequence of, the shift in the after-tax distribution. However, some of the phenomena reported below may have been incipiently developing before the tax reductions of the Rogernomics period.

At issue is what those on top incomes did with their additional income (i.e. the $1.4bn a year for the top 0.1%; $7.4bn a year for the top 10%). Undoubtedly some was invested, although the previous section suggested that there is little evidence of a return on this additional investment in the available data. But certainly some of the billions would have been not saved but consumed.

The difficulty here is that the research evidence suggests that above some threshold – well below the amount those on top incomes experience – additional consumption does not add to happiness or well-being. There are exceptions, such as better access to health care. And there is evidence to the effect that experiences are more highly valued than consumption of goods (scuba diving is valued more than the scuba equipment itself, if you are that way inclined). While consumption may not enhance well-being, however, much income can be a source of social status, and there is a need by the wealthy to demonstrate how rich they are. (There would be no annual rich list were there not, even if its coverage and estimates are erratic.) This gives rise to conspicuous consumption: the acquiring of luxury goods and services to publicly display economic power (income and wealth).

Conspicuous consumption takes many forms, including the purchase for public display of assets such as housing and cars far in excess of reasonable requirements. (Such purchases may be described as investments, but they give no market return.) It may involve the hosting of expensive, publicly-observed events – such as lavish parties – while attention in the gossip columns, if not always welcome, also displays wealth. Hagiographies are commissioned; auto-hagiographies are ghosted. Probably titles – reinstated in part by pressure from the rich – are not directly bought, but there is no doubt that there is an association between them and wealth. (Those that are awarded by merit enhance the less-merited awards.)

Traditionally the New Zealand rich have contributed to the public wealth by anonymous donations (although there was a convention that less anonymity was appropriate in donations after death). It is difficult to judge whether such donations are more common today – probably, given the greater income share of the rich – but today there is little anonymity, which makes the donors' status all the more conspicuous. (Note that the choices they make may shape activity in particular directions: acceptable art and writing is likely to be abstract rather than to depict political and social issues.)

Some of the surplus of the rich is used to defend their social positions. New Zealand's largest think tank (currently the New Zealand Initiative) is funded generously by millionaires. Donations influence political parties. Meanwhile, alternative views are discouraged in various ways, including limiting the role of the government as a contributor to the public good. Given that the evidence of increasing economic inequality is two decades old, it is extraordinary that widespread public debate is less than two years old. Perhaps even more importantly, the public debate tends to be confined to options that not only justify the rich's success but also ignore alternative possible developments.

It may be either conspicuous consumption or political defence or both, but a feature of today's political landscape is that three minor parties are overtly funded by millionaires. While money influences the public perception of the beauty, charm and intelligence of the wealthy, it is well to remember that commercial acumen (and luck) are not necessarily associated with aesthetic sensibility, political insight, and intellectual aptitude (or even the ability to form a coherent sentence). Fortunately, the rich rarely make claims of sporting prowess (except in yachting). An obsequiousness by the guardians of public taste (who are often rewarded by the generosity of, and favours from, the rich) results in the wealthy's non-commercial attributes being exaggerated.

Conclusion

New Zealand is a different society today from that of the early 1980s. In part this is the result of social and technical change and changing external relations in a globalised world. But some features of the change can be explicitly attributed to the rise in the relative incomes and wealth of the rich resulting from the changes in economic redistribution and tax policy in the late 1980s and early 1990s. This article contributes to quantifying the magnitude of these changes and tracing their implications.

1 Pareto coefficients are not reported as they were in the preceding article. Estimates proved unstable, indicative that the after-tax distribution was not particularly Pareto distributed. If the before-tax distribution was, the after tax-distribution would be only if the tax regime was exactly proportional.
2 For instance, the rise in the top marginal tax in 2000/01 depresses levels slightly.
3 The story is complicated by the removal of tax exemptions at various times and the imposition of the New Zealand Superannuation surcharge.
4 It was rare for a company to pay tax at the full corporation tax rate because of various rebates and exemptions.

Acknowledgements

Geoff Bertram and Sandra Morgan assisted with this paper, without being implicated in any errors or opinion. Thank you.

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Philip S. Morrison

Who Cares About Income Inequality?

On the eve of the lecture by the authors of *The Spirit Level* at the University of Auckland in May 2014, Tim Hazledine pointed to a 2006 international survey which found that New Zealanders were less supportive of redistributing income from the rich to the poor than people in most other nations in the survey. 'I don't think that leads to saying all is well', Hazledine said. 'I think inequality is a problem. But we have to understand why we tolerate it'; 'We have to understand why we don't have blood flowing in the streets' (Collins, 2014).

Concern about the values that underlie our current levels of income inequality mirror a growing international unease over the social implications of rising inequality.[1] Since *The Spirit Level* (Wilkinson and Pickett, 2009), several texts have offered further reasons for concern. One of these reasons is the tendency for inequality to increase. In *Capital in the Twenty-first Century*, Thomas Piketty observes how modern economic growth and the diffusion of knowledge have failed to reduce inequality, and carry a dynamic which may take inequality beyond its already historically high levels (Piketty, 2014). In *The Price of Inequality: how today's divided society endangers our future,* Nobel laureate Joseph Stiglitz asks us to recognise that the new settler countries like the United States and New Zealand are no longer lands of opportunity for all, and how their inequality, especially at the top, is due to rent-seeking and therefore bad for growth (Stiglitz, 2013). Princeton's Angus Deaton in an historical treatment links rising inequalities to growing differences in our health and well-being (Deaton, 2013). These treatments echo and support many of the concerns about New Zealand voiced by Max Rashbrooke in last year's March issue of *Policy Quarterly* (Rashbrooke, 2014) and by those who contributed to his edited volume on inequality in New Zealand (Rashbrooke, 2013).

These concerns over inequalities are particularly important for New Zealand because we have become one of the more unequal societies in the OECD at the level of both the individual and the household (OECD, 2014b; Perry, 2014; Collins, 2014). However, such an international positioning is based only on *objective* measures of income. By contrast, we are far less aware of what people actually think

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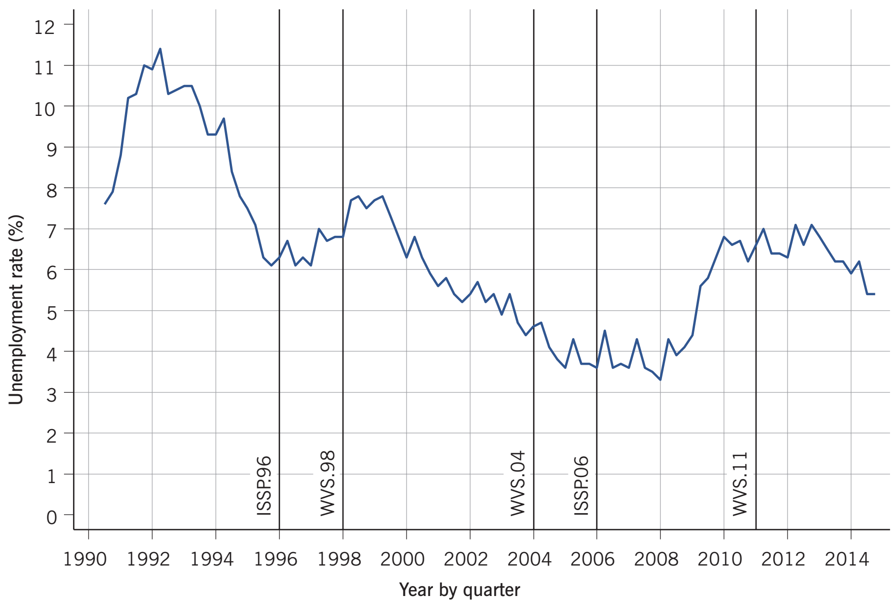
subjectively about inequality – the level of inequality they regard as acceptable and what they think government's role should be in redistributing income. It is these subjective views that are of interest in this article. Ironically, the views people themselves hold about inequality may be reason for an even deeper concern over the future of inequality in New Zealand.

Of central concern is the way in which current levels of both income inequality and redistribution in New Zealand are being sustained by the prevailing value distribution. Contrary to the thesis that inequality is imposed from above or from outside the country, and, implicitly, that growing inequality runs counter to most people's wishes, the survey evidence presented below suggests that current levels of inequality are actually supported by the current balance of people's attitudes to inequality and their views on their government's role in redistribution.

Figure 1: The timing of surveys assessing attitudes to income inequality in relation to the New Zealand unemployment rate 1990–2014



Note 1: ISSP = International Social Science Programme ; WVS = World Values Survey
Note 2: Survey field work dates WVS NZ: 2011 (17/11/2011 to 02/02/2012); 2004 (08/11/2004 to 10/02/2005); 1998 (24/11/1998 to 01/12/1998). ISSP NZ: 1996 (24/04/1997 to 05/08/1997); 2006 (09/08/2005 to 30/09/2005). Note that actual field work dates can vary slightly from the date given in the survey.

Source: Household Labour Force Survey, ISSP and WVS surveys.

Our attitudes towards income inequality and (re)distribution

Surveys administered to New Zealanders by the World Values Survey (WVS) in 1998, 2004 and 2011 and by the International Social Science Programme (ISSP) in 1996 and 2006 have opened a window on our attitudes to income inequality and what we want government to do about it. Surprisingly, few of these survey findings have received more than passing mention either in the New Zealand media or in academia.

Figure 1 shows the years in which these five surveys were administered. They are deliberately placed against the changing rate of unemployment over the last decade and a half. The first two surveys were administered in 1996 and 1998 when unemployment rates were relatively high at between 6 and 7%. The next two were fielded in 2004 and 2006 when the economy was growing rapidly and unemployment had fallen to between 3.5 and 5%. The fifth survey, in 2011, was undertaken when unemployment rates had again risen to between 6 and 7%.

Over the decade and a half covered by this sequence of surveys the level of income inequality in New Zealand remained relatively stable: the Gini index ranged between 0.30 and 0.33 (Perry, 2014)[2] and the ratio of the top 20% to the bottom 20% (P80/P20 ratio) hovered between 2.42 and 2.74 (and between 2.54 and 3.12 after adjusting for housing costs).[3] This last point is important for our interpretation of the survey evidence because there is empirical evidence that higher observed inequality will induce a greater preference for redistribution, as argued by one of the most influential political economy models (Meltzer and Richard, 1981). At the same time, while rising inequality does have direct and indirect effects on redistributive preferences, it is not just the level of inequality but also the structure of the inequality that matters (Toth, Horn and Medgyesi, 2014).[4] An increase in inequality will 'only partly convert into demand for redistribution as part of the inequality increase appears in the expectations and, therefore, in tolerance for (somewhat) larger levels of inequality' (ibid, p.2).

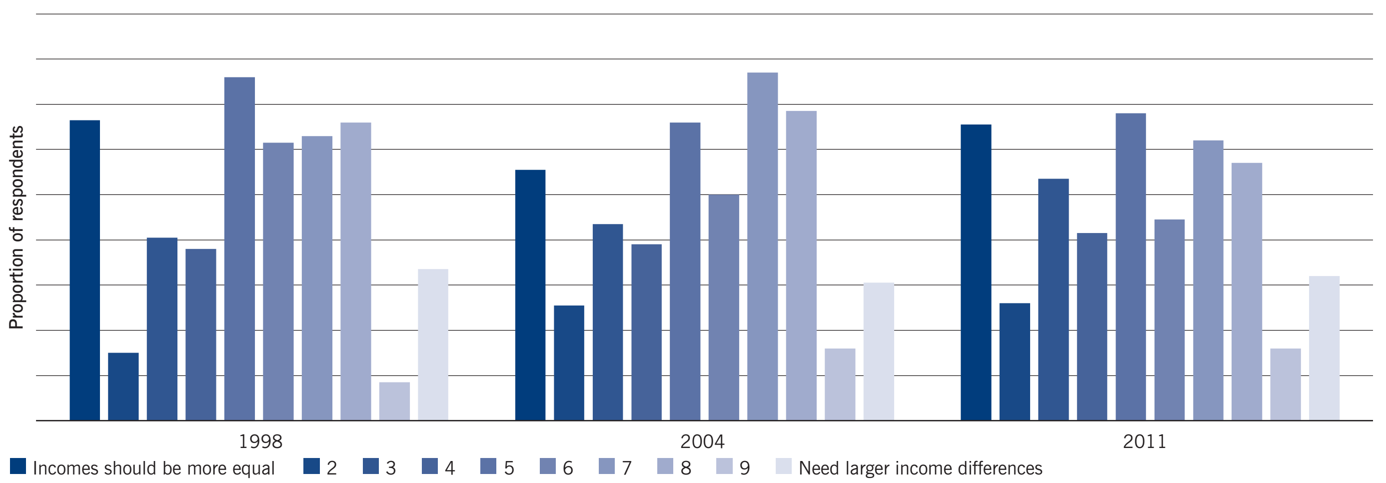
An implicit assumption made by those who connect attitudes and inequality is that respondents are aware of the *actual* level of inequality. This is highly unlikely, and therefore the variation in subjective preferences present in opinion surveys like WVS and ISSP are likely to reflect both people's preferences and their awareness of the actual levels of income inequality. Without appropriate experimentation, it is not possible to attribute the relative importance of each.[5]

The following discussion begins with survey evidence on how New Zealanders view income inequality and the degree to which they support government's redistribution of income. In section two these levels of support for government redistribution are compared to those held by residents of other countries. The final section foreshadows a future exploration of the way our views on income distribution vary across the population demographically and socio-economically, including their wealth and current and expected income.

How we view income inequality

The World Values Survey is undertaken by a global network of social scientists studying changing values and their impact on social and political life. The WVS is headquartered in Sweden and since 1981 has applied a common questionnaire to nationally representative samples in almost 100 countries, or almost 90% of the world's population.[6] The WVS question of interest here asks respondents to consider

Figure 2: The distribution of responses to the World Values Survey question: 'Should incomes be made more equal or less equal?' New Zealand 1998 (n =1201), 2004 (n = 954) and 2011 (n=841)



Note: The percentages aggregated over categories are as follows:

	1–4	5–6	7–10	NA, DK	Total
1998	32.0	27.5	34.2	6.4	100
2004	32.7	23.2	38.4	5.6	100
2011	37.3	22.5	33.4	6.7	100

	1–5	6–10	NA, DK	Total
1998	47.2	46.5	6.4	100
2004	45.9	48.4	5.6	100
2011	50.9	42.3	6.7	100

Source: WVS. The 'longitudinal' series for all countries along with a mapping feature is available for online analysis at www.worldvaluessurvey.org/WVSContents.jsp.

whether 'Incomes should be made more equal', a response of 1 denoting complete agreement. At the other end of the scale is the statement, 'We need large income differences as incentives for individual effort', with a 10 indicating complete agreement. The distribution of responses to the 1998, 2004 and 2011 surveys (waves 3, 5 and 6 respectively) is shown in Figure 2.[7]

Two important features of New Zealand attitudes emerge from the histograms in Figure 2. The first is the remarkable lack of consensus on whether incomes should be more equal or less equal. Not only is the sample population fairly evenly split across the upper and lower halves of the 10-point scale, but there is little concentration of views. If anything, there is a polarisation, evidenced by the heaping of extreme views at both ends of the scale. As we will see below, this heterogeneity of opinion on inequality sets New Zealand apart from many other countries.

The second salient feature of Figure 2 is the shift in the distribution over time. In the first period, which was characterised by high unemployment, a slightly higher percentage favoured greater income equality: 47.2%>46.5% (assuming those not answering or who answered 'don't know' are drawn randomly from the population).[8] The second survey, in 2004, took place when the unemployment rate had dropped by half, which was accompanied by a rightward shift in redistribution preferences: 45.9%<48.9%, a feature consistent with the positive empirical relationship between unemployment and income inequality itself.[9] The boom did not last, and by 2011 unemployment had climbed again to between 6 and 7%. Consistently, the distribution of preferences shifted back to the left, towards greater income equality: 50.9%>42.3%.

At the same time, we might want to question just how much these temporal shifts in preferences were due to the unusually high proportion of respondents taking one of the extreme positions, 1 or 10. In case the selection of the extremes is governed by a separate process, the mean score of the responses *between* the polar categories was calculated for each survey year, but they too follow a similar temporal pattern, rising from 5.69 to 5.70, then down again to 5.48.[10]

In summary, the responses to the World Values Survey question on income inequality in New Zealand expose a remarkable lack of consensus on how income should be distributed. At the same time, successive administration of the question over three periods of varying growth indicates a sensitivity to changes in the macroeconomy – in the availability of jobs and hence income opportunities over the period – supporting the view that an increase in economic growth lessens pressure for government redistribution of income.[11]

The WVS was not the only instrument used to gather attitudes towards income distribution in New Zealand over this period. Support for the same broad conclusions comes from the two ISSP surveys fielded over a similar time interval. In questions which complement those above, the ISSP focused on the role New Zealander's believed their government should play in redistributing income.

Should government redistribute income?

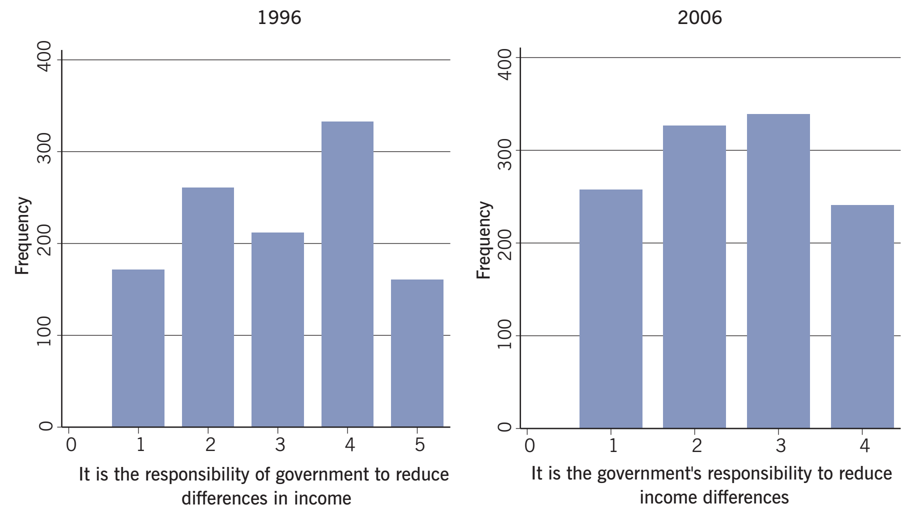
The International Social Survey Programme is an ongoing programme of cross-national collaboration which administers surveys under the auspices of the Leibniz Institute for the Social Sciences (GESIS). The programme brings together pre-existing social science projects and coordinates research goals, thereby adding a cross-national, cross-cultural perspective to the individual national studies.

The ISSP's 1996 question asked: 'What is your opinion of the following statement: "It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes".' Respondents were asked whether they

(1) Agree strongly; (2) Agree; (3) Neither agree nor disagree; (4) Disagree; (5) Disagree strongly. Ten years later, in 2006, the same question was asked again but the response options were reduced from a five- to a four-point Likert scale, as follows: (1) Definitely should be; (2) Probably should be; (3) Probably should not be; (4) Definitely should not be. A comparison of the responses to the 1996 and 2006 ISSP surveys in Figure 3 suggests a reduction in support for redistribution over the intervening decade, a result which is consistent with the apparent decrease in preference for greater equality observed over the first two WVS surveys. In 1996 only 43.37% disagreed or strongly disagreed that it is government's responsibility to reduce income differences between the rich and the poor in New Zealand. By 2006 this had risen to just over half, to 50.21%. The fact that both surveys were administered first in high and then in low unemployment periods likely accounts for at least some of the shift in attitudes towards income inequality.[12]

As it turns out, these ISSP results for New Zealand are relatively unusual internationally, and this raises questions about the particular socio-economic conditions and political and historical context conditioning New Zealander's attitudes towards their government's role in redistribution.

Figure 3. 'Is it government's responsibility to reduce income differences between the rich and poor?' ISSP New Zealand, 1996 (n=1139) and 2006 (n=1165)



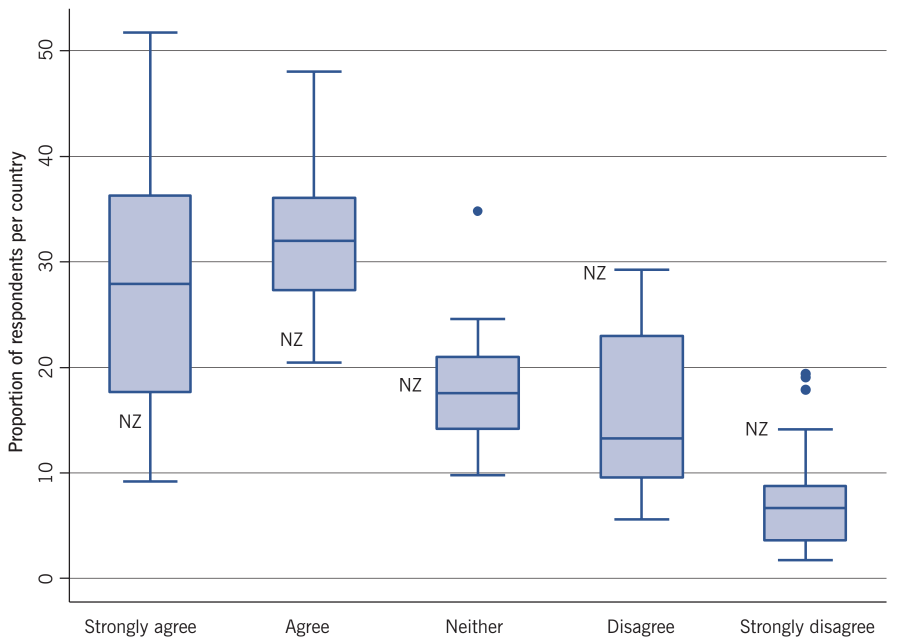
Note 1: The following table aggregates the percentages over the first and last response categories:

Year	1–2 (agree strongly or agree)	3	4/5 (disagree or disagree strongly)	Total
1996	38.02	18.61	43.37	100%
2006	49.79	X	50.21	100%

Note 2: Details of the sample design and response rates of the ISSP survey may be found at http://www.issp.org/.

Source: ISSP

Figure 4. 'It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes.' The distribution per country by response category as surveyed by ISSP in 1996



Note 1: The 19 countries present in both the 1996 and 2006 ISSP samples are: Australia, Canada, Czech Republic, France, Hungary, Ireland, Japan, Latvia, Netherlands, New Zealand, Philippines, Poland, Russia, Slovenia, Spain, Sweden, Switzerland, Great Britain and the US.

Note 2: As is conventional in box plots, the shaded box covers the inter-quartile range (IQR), with observations divided in half by the horizontal median line (Tukey, 1977). The 'whiskers' extend to the lower and upper adjacent values which are <=1.5 x IQR. The dots are outliers, those beyond 1.5 x IQR (inter-quartile range) (Cox, 2009).

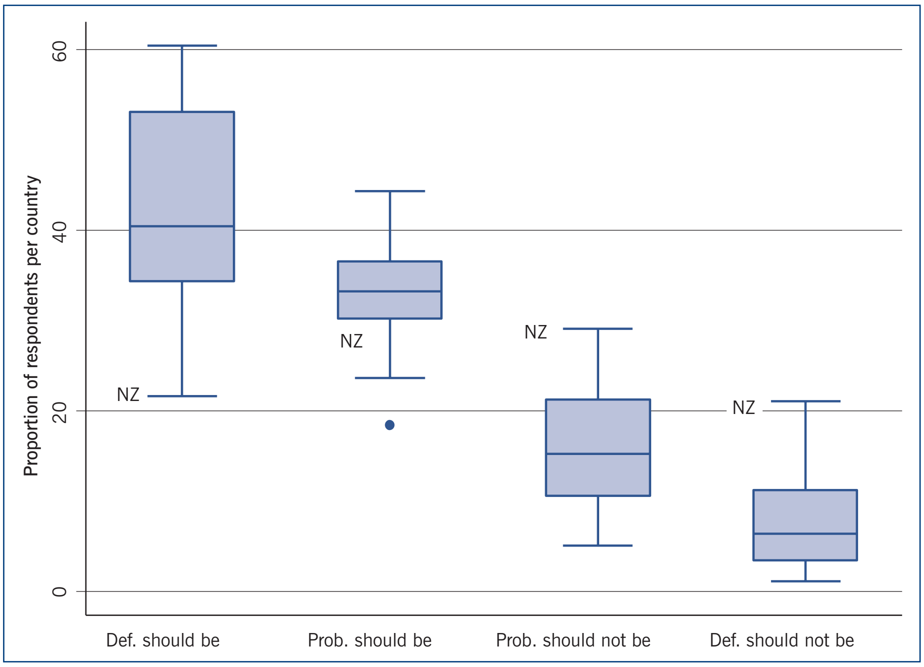
Source: ISSP 1996. The figures from which these box plots have been drawn are available on request.

International comparisons

A comparison of the New Zealand responses with those from 19 other countries answering the same survey in 1996 and 2006 is instructive. Figure 4 shows how the proportion selecting each response category of the government redistribution question was distributed across the 19 countries. (The countries are listed in note 1 to Figure 4.)[13]

The first of the five box plots in Figure 4 captures the proportion in each of the 19 countries who 'strongly agreed' that it is the responsibility of government to reduce income differences. The 'NZ' marker indicates the position of the New Zealand proportion on the left scale. The highest percentages were Slovenia at 51.73%, Russia at 43.28% and France at 42.9%. New Zealand sits third-to-last at only 15.10%, behind Australia at 17.29% and Canada at 17.69%, but above the US at 12.1% and Philippines at 9.2%. In other words, in the mid-1990s New Zealand was one of the countries *least* likely to strongly support income redistribution, and this is in spite of considerable publicity given to the increasing income

Figure 5: 'It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes.' The distribution by response category across the common 19 countries surveyed by the ISSP in 1996 and 2006



Source: ISSP 2006.

inequality in New Zealand at that time. In this case, New Zealanders' relatively weak support for redistribution is consistent with conclusions drawn from an earlier inspection of this same survey (Humpage, 2011).

An inspection of the remaining four box plots in Figure 4 shows that when people are asked about the prospect of their governments redistributing incomes (the right end of the figure), countries differ much more from each other than when they are asked about maintaining the status quo (the middle 'agree' plus 'neither' categories). In this case New Zealand sat the middle of the distribution. However, a certain proportion of respondents in each country disagreed with the proposition that the government had a responsibility to redistribute, and New Zealand had one of the highest such proportions. Those who 'strongly disagree' with further redistribution made up 14.14% in New Zealand, well ahead of Australia at 11.24%, but fourth behind Canada at 19.37%, the US at 18.99% and Japan at 17.86%.

One way of appreciating the unusual distribution of New Zealanders' preferences for income (re)distribution is to compute the entropy of the distributions shown in Figure 3 for each country. Entropy in this context is a measure of uncertainty as to which response category a randomly selected person might choose.[14] New Zealand exhibits a very high entropy in 1996, meaning there is a fairly even chance that any one of the five degrees of support for redistribution will be selected. By contrast, in a number of countries, such as Slovenia, Spain, Poland and Russia, the largest proportion of the population strongly agree that 'It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes.' New Zealanders, however, are relatively unconstrained in expressing their personal views, and the resulting diversity is reflected in the high entropy or evenness of our distribution.

A similar situation prevailed ten years later when New Zealand occupied second position to the US in entropy terms, exhibiting 99.2% of the maximum possible level of uncertainty over the four response categories in 2006. Again, in contrast, choices made by residents in the eastern European countries of Hungary, Russia, Poland and Slovenia were considerably more certain (Russia's entropy as a percentage of the possible maximum was only 69%, for example).

Figure 5 is not an exactly comparable graph to Figure 4 because of the reduction in the number of response categories and the slight difference in the response options. What is relevant, however, is New Zealand's *relative* position in each of the distributions, and this is largely unaffected by the aggregation of categories between the two surveys. In 2006 New Zealand sat at the bottom of the same 19 countries when it came to agreeing that it 'Definitely should be the government's responsibility to reduce the differences in income between people with high incomes and those with low incomes.' The New Zealand percentage of 22.15% was almost half the all-country average of 43%. Only the Czech Republic had a lower percentage supporting government redistribution than New Zealand.

In summary, the two ISSP surveys that asked the same question in the same set of 19 countries in 1996 and 2006 show that when it comes to their government's role in income redistribution, New Zealanders occupied a relatively unusual position internationally. In both survey years New Zealand respondents were among the most likely to hold the view that it was definitely *not* their government's responsibility to reduce income differences, the 20.7% in 2006 being exceeded only by the US at 21.1%. It was this international survey that was referred to in the opening paragraph of this article, and the fact that we are now much less likely than most other countries to support income redistribution is a feature that surprises many older New Zealanders nurtured in the welfare state.[15]

Conclusions

So, who does care about income inequality, and what do New Zealanders believe government's role should be in redistributing income? An indifferent population would be clustered around the mid-points of the inequality and redistribution scales used in the above surveys. To the extent that New Zealand's relatively uniform, high-entropy distribution is a marked departure from such a pattern, New Zealander's *do* care about income distribution and the role their government should play. However, what they care *about* differs markedly. The survey results presented above indicate a fine balance between those who would like to see less and those who would like to see even greater income inequality. A similar wide dispersion of views is apparent when New Zealanders are asked about the government's role in redistributing income. What on the surface is surprising about these results is that, despite growing evidence of the negative effects of inequality on society as a whole, fewer than half of us believe incomes should be made more equal *or* that government has a responsibility to do more to reduce income differences between people with high and low incomes. And this takes us back to the beginning, and why we do not, in Tim Hazeldine's words, have 'blood flowing in the streets'.

Another, longer paper would be required to begin to explain why New Zealanders hold the attitudes they do. An analysis of unit records from successive New Zealand electoral surveys (Humpage, 2014) suggests that people support redistribution when it appears to be to their personal advantage and resist it when they are less likely to benefit, a result which is consistent with the international evidence (Guillaud, 2013). The cyclical differences in levels of support for (in)equality and redistribution shown above are consistent with such a view and the suggestion that redistribution preferences are sensitive to expected as well as current income.

While belief in social mobility and the associated wish of individuals not to constrain their own future income by advocating greater redistribution applies in many countries, the evidence presented above does not explain why New Zealanders are relatively much more conservative, nor why we exhibit a wider spectrum of preferences for inequality and redistribution than a selection of other countries. Answering that question would require a comparative analysis of the peculiarities of New Zealand culture and institutions as they currently influence attitudes to inequality.[16]

In December 2014 the OECD published empirical evidence of the negative effect income inequality has on economic growth (OECD, 2014a). The support historically high levels of inequality continued to receive from the majority of individuals in New Zealand through the first decade of the 2000s may, therefore, be a classic case of what Thomas Schelling earlier referred to as the tyranny of micro motives – the propensity of quite rational individuals to collectively generate irrational social outcomes (Schelling, 1978). It is no accident that Schelling's primary example of such irrationality is residential segregation, which I will discuss in a companion article in a later issue of *Policy Quarterly*.

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1 By 2010 the New Zealand Gini coefficient of 0.32 was 16th in the ranking of the 34 OECD countries; the most unequal was Chile (0.50) and the least unequal was Iceland (0.24). For a review of ongoing OECD research on income inequality see http://www.oed.org/social/inequality.htm.

2 The Gini coefficient compares cumulative proportions of the population against cumulative proportions of income they receive. It ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality (Statistics New Zealand: http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/income-inequality.aspx).

3 The P80/P20 ratio summarises the relative distance in the income distribution between high household incomes (those in the 80th percentile) and low household incomes (those in the 20th percentile). The higher the ratio, the greater the level of inequality (ibid).

4 The Gini coefficient as such does not indicate the *structure* of inequality and quite different patterns of income distribution can give rise to the same single coefficient.

5 There is evidence that people surveyed do not appreciate the full extent of income inequality, although the degree can vary internationally (Osberg and Smeeding, 2006). At the same time, there is also a positive correlation between inequality levels based on 'ought to earn' incomes and the Gini index (Andersen and Yaish, 2012). In the case of New Zealand, Peter Skilling (AUT) surveyed over 1000 people using the online Buzz Channelmarket research service and found that most people thought the top 20% wealthiest New Zealanders owned just over half the wealth (51.8%), that the next 20% owned 18.3% of the wealth, and the bottom three 20% slices of the population by wealth owned 14.6%, 9% and the poorest quintile 6.3%. As Skilling points out, the official figures are quite different and they indicate that the richest 20% owned 70% of the wealth, with 18% in the hands of the second-richest quintile and 10% in the hands of the middle quintile. Just 2% was owned by people in the fourth quintile, while the bottom owned nothing.

6 The New Zealand sampling frame was an electronic version of the electoral roll and covered an age range of 18–90 years. The roll drawn was stratified by five-year age cohorts and by parliamentary electorates. The self-administered postal survey was posted to 2024 people throughout New Zealand on 24 September 1998. Sample size was 1201 and the response rate was 65.3%. Special attempts were made to increase the response rate from low household income areas.

7 Excluding the proportions given under the table who returned the No answer and Don't know options.

8 It is possible to test this hypothesis using the underlying unit record data but this has not been attempted here.

9 This positive relationship has been well documented for US males, 1947–73 by Beach, who noted a 'definite pattern of cyclical sensitivity that is particularly strong at the bottom end of the income distribution' (Beach, 1977, p.64). Using a similar series for almost the same years, Blinder and Esaki estimated that 'each one percentage point rise in the unemployment rate takes about 0.26%–0.30% of the national income away from the lowest 40% of the income distribution and gives it to the richest 20%' (Blinder and Esaki, 1978, p.607). The incidence of unemployment is therefore quite regressive. I am unaware of similar calculations having been undertaken in New Zealand, but they are clearly relevant to the current inequality debate.

10 The only other published reference to the results of the 2004 World Values Survey I am aware of (Carroll et al., 2011) reaches the same conclusion on the basis of the first of the two WVS surveys noted above. Their analysis showed 'slightly more leaning towards individual responsibility than collective responsibility' (p.8) and how a minority were in favour of government redistributing in favour of the less well-off. They go on to observe how 'a clear majority of those surveyed prefer to blame the poor for their position and believe they [the poor] can get out of poverty if they try, rather than blaming underlying structural inequalities' (ibid). The survey results showed 'no clear mandate to actively decrease inequalities through redistributing income' (ibid).

11 Similar results apply to concerns over job security which is of course intimately related to expected income (Morrison, 2014).

12 However, on the basis of these same data Louise Humpage has suggested that, despite the significant number of neutral answers, there was a significant shift away from supporting greater redistribution, even during the 1990s when there was high unemployment and much media coverage of poverty and inequality (Humpage, 2011). Although the Ministry of Social Development indicated in 2008 that actual income inequality increased rapidly during the 12-year period covered in her Table 3, the number of people agreeing that New Zealand was an unequal society decreased slightly, from 68% in 1984 to 60% in 1999. She notes that it is difficult to ascertain whether this was the result of slightly different questions being asked, a growing tolerance of inequality influenced by neo-liberal rhetoric focused on self-reliance and welfare dependency, or whether the public genuinely believed equality had improved as the economy regained its strength. But the fact that almost a third of ISSP (2000) respondents in 1999 (30%) also believed that large differences in income were necessary for New Zealand's prosperity suggests that neo-liberal discourses did have some impact.

13 Although we confine the international comparison to 19 of the 33 countries analysed in 2006, both the distributions and the relative position of the New Zealand responses remain very similar when all the available countries are considered. The same is true of the difference between the 19- and 26-country comparisons in 1996.

14 Letting pi be the probability a randomly selected New Zealander will select category i (Strongly agree through Strongly disagree), the entropy is the sum of pi.log(1/pi) over the response categories i=1,...,5 (Theil, 1972, p.6). The maximum over five categories is log(n=5) = 0.699. New Zealand's entropy of 0.559 in 1996 was nearly 80% of the possible maximum uncertainty, second only to the US (82.4%). (The country with the lowest level of uncertainty – the greatest certainty – among the 19 countries was Slovenia, whose entropy of 0.387 was only 0.553 of the maximum.) The entropy calculations are available on request.

15 Such views are well articulated in Hazeldine's *Taking New Zealand Seriously: the economics of decency*, for example (Hazeldine, 1998).

16 At the same time, it is important to recognise the possible ambiguity which can lie behind responses to surveys. Louise Humpage notes, for example, how difficult it is 'to tease apart if and when the answers respondents offered to survey questions reflected their values and beliefs, their particular experiences of the neo-liberal reform, or their susceptibility to the political debates and discourses articulated by the political élite via the mass media' (Humpage, 2011, p.11).

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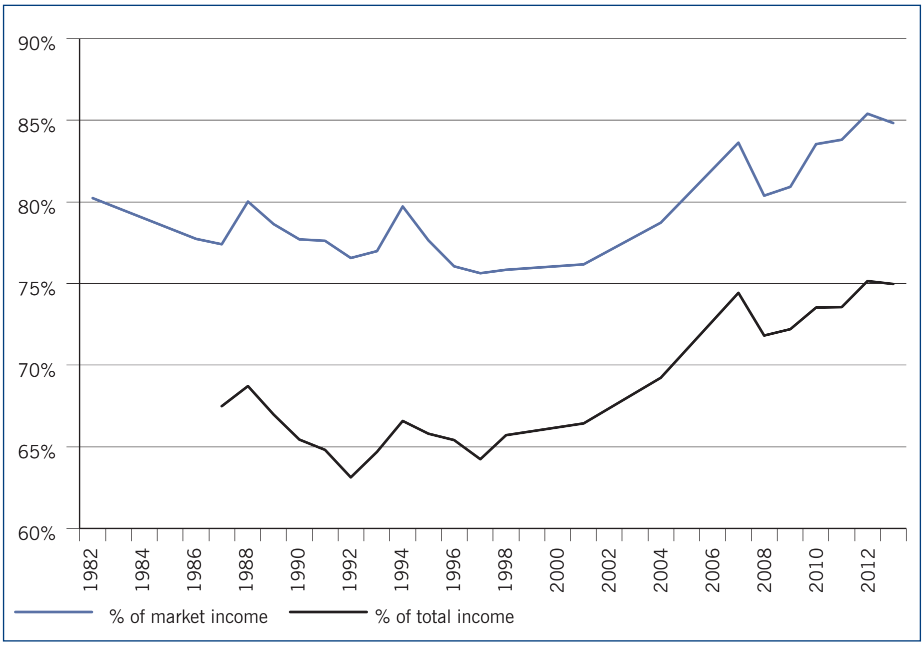
Bill Rosenberg

Wages and Inequality

Wages and salaries are a vital part of the picture of income inequality in New Zealand because so many people depend on them as their principal or only source of income, although it is important to remember that the greatest extremes of inequality most frequently come from investment income (for very high incomes) and from social welfare benefits (for poverty). Wages and salaries are market incomes – that is, before taxes, tax credits like Working for Families, and other government assistance. 'Market' incomes include income from capital (real estate, investments, financial assets and other unearned income) as well as wages, but here we are looking only at wages and salaries (henceforth 'wages'). Market income is distributed much more unequally than even New Zealand's relatively high inequality of disposable incomes, let alone after also taking into account the provision of government services (or 'final income': see, for example, Aziz et al., 2012). It is, therefore,

Figure 1: Wages and salaries as a proportion of household income



Source: Household Economic Survey, SNZ

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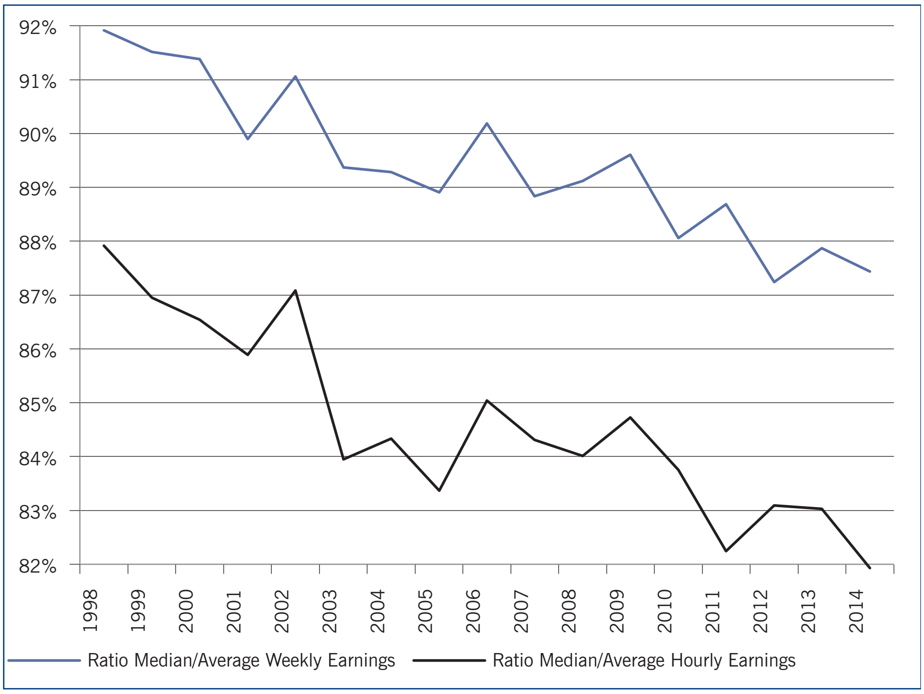
Figure 2: Ratio of median to average earnings



Source: Household Economic Survey, SNZ

important to consider inequality of disposable or final income, but there is a return to concern about the distribution of market incomes, sometimes referred to as 'predistribution', in part because high levels of market income inequality meet increasing political resistance to adequate redistribution through the tax and benefit system.

The importance of wage and salary income

The part played by wages and salaries in providing income to New Zealand's households seems sometimes to be forgotten or taken for granted. Statistics New Zealand's Household Economic Survey (HES) shows that wages make up around three-quarters of average regular and recurring household income: though it dipped during the 1980s and 1990s, the percentage has been rising since then, from 66% in 1998 to 72% in 2008 and 75% in 2013.[1] Wages were 85% of average market income in 2013. According to the HES, the majority of households receive incomes from no other source.

Between 1983 and 2003, among families with at least one person aged 25–59, Stillman et al. (2012) found that 'labour income is by far the largest component of income and made up between 84% and 90% of regular income during the sample period'. According to Perry (2014, p.90), 'The two factors that impact the most on the incomes of two-parent-with-dependent-children households are average wage rates and the total hours worked by the two parents.' Easton (2013, p.3) reports that 'The majority of the poor are couples with jobs, with some – but not a lot of – children, living in their own home albeit with a mortgage.'

A Treasury study looking at incomes before and after taxes, transfers and public services found that the market incomes of the lowest income half of households had essentially remained static in real terms between 1988 and 2010, in spite of a marked increase in the number of earners per household (Aziz et al., 2012, figure 2). According to Perry (2014, p.15), 'Around two of every three two-parent families were dual-earner families from 2007 to 2013, up from one in two in the early 1980s.' Many families worked harder to stand still.

Nevertheless, it is difficult to draw clear lines between wages (and other market income) and household income inequality because of the effect of taxation, tax credits and the other forms of social assistance. But given the dominance of wages in household incomes, they must underpin any consideration of adequacy and fairness of household incomes – unless we are willing to move to much more universal income assistance.

The distribution of wages

There is not as good publicly available data and analysis of the distribution of wages (or other market income) as there is for disposable household income. Easton (1983) provides some data for 1959–74; Dixon (1998) provided an analysis for the years 1984–97; and a 1999 Statistics New Zealand publication (Scott, 1999) provided further data for 1982–96. In somewhat more recent research, Stillman et al. (2012) analysed the incomes of families with at least one person aged 25–59 from 1983 to 2003. They found that 'real hourly wages declined 11–16% fairly evenly across the entire wage distribution between 1983 and 1993'. Between 1993 and 2003, real wages at and below the median grew only 3–6% while those above grew significantly faster: for example, 15% at the 9th decile. Changes in weekly earnings were less extreme, with no divergence from 1993 to 2003, because lower-paid workers worked more hours, confirming the observations above. However, there was a gradual increase in inequality in the top half of the wage distribution: the ratio between the 9th decile and the median increased by about 6% between 1983 and 2003 for both hourly and weekly wages, and gross and disposable household income (indicating the close relationship between wage and household inequality).

Since 2003 there have been some signs of an increase in wage inequality between lower and higher incomes. For example, as Figure 2 shows, the ratio of the median to the average hourly and weekly wage measured in the New Zealand Income Survey fell between 1998 and 2014, indicating that middle-income wage earners were receiving a declining proportion of the average wage and suggesting that higher wage and salary incomes were rising faster than low-wage incomes. Top salaries (such as those of chief executives and highly paid professionals) rose steeply during the 1990s, in relation both to lower wages and to each other. There is conflicting evidence as to their trend during the 2000s.

Wage and salary taxable income data from Inland Revenue[2] unfortunately only goes back to 1994, after the biggest growth in disposable income inequality occurred. Pareto coefficients calculated on the top incomes show that top salaries rose more quickly than others in the late 1990s, stretching the inequality between top executives and most workers. It possibly fell a little during the 2000s and more recently rose (though note that 2012 data is provisional). On this data, the average income in the top 0.1% (one in a thousand) of salaries was approximately $650,000 in 2012, and $285,000 for the top 1%. The figures had been $265,000 and $130,000 respectively in 1994. The average for the top 0.1% rose from 16.5 times the average for the bottom 90% in 1994 to 21 times in 2012, and for the top 1% from eight times the bottom 90% in 1994 to nine times in 2012.

However, the data does not include some forms of income that senior private sector executives frequently get as a significant part of their pay package, such as shares or share options. It is therefore likely to understate the total remuneration for this group.

Although the lack of share option information doesn't necessarily mean top income inequality is either under- or overstated, the apparent slight easing in inequality during the 2000s is not consistent with many media reports and analyses of accelerating inequality between the incomes of top executives and their workers over this period. From 1997 to 2002, however, it is reasonably consistent with research by Otago academic Helen Roberts (Roberts, 2005, p.21; see Figure 5, noting that it shows real rather than nominal incomes). This shows chief executive remuneration rising from 11 times the average income of all workers in 1997 to 13 times in 2002. More recently, Fairfax business journalist Tim Hunter (2013) compared chief executive incomes to those of the average for staff in the companies they head. He found, for example, that the ratio had increased from 22 times in 2010 to 26 times in 2012, which is consistent with the upturn showing from 2010 in top salary inequalities in Figures 3 and 4. His methodology is different from either Roberts' or the tax data analysis, so the research is not directly comparable, but it is consistent with strongly growing inequality between top incomes and those of the great majority of employees. These kinds of studies are largely limited to the chief executives of sharemarket-listed companies and top public sector managers because of lack of other data, but it seems unlikely that other executives would have had significantly different trends, given their close attention to relativities.

Figure 3: Inequality in top salary incomes – Inverted Pareto coefficient

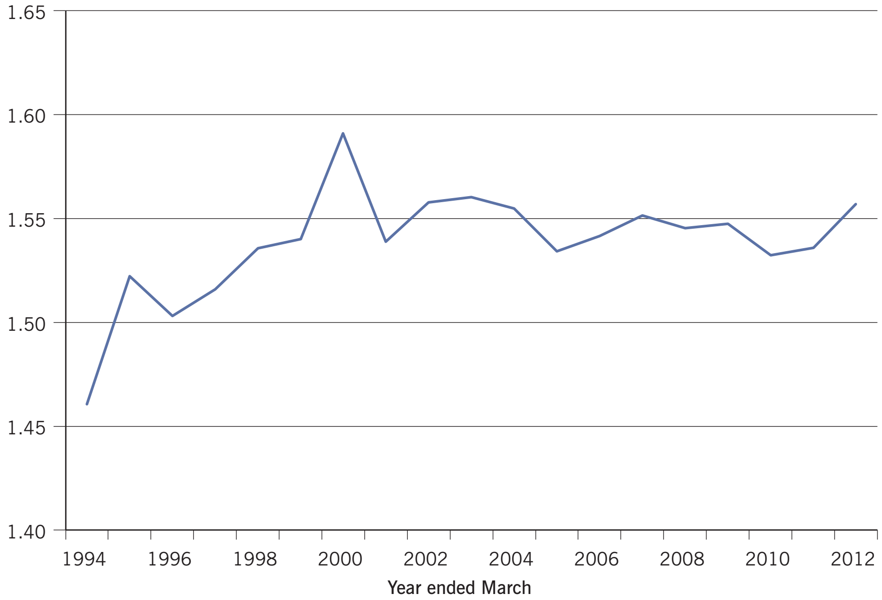
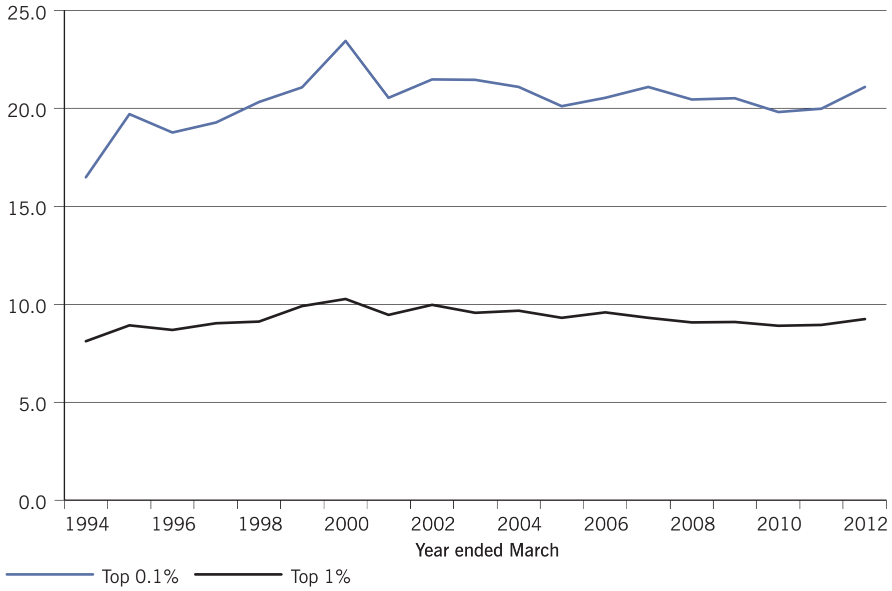


Figure 4: Ratios of average top salaries to average for bottom 90% of wage earners

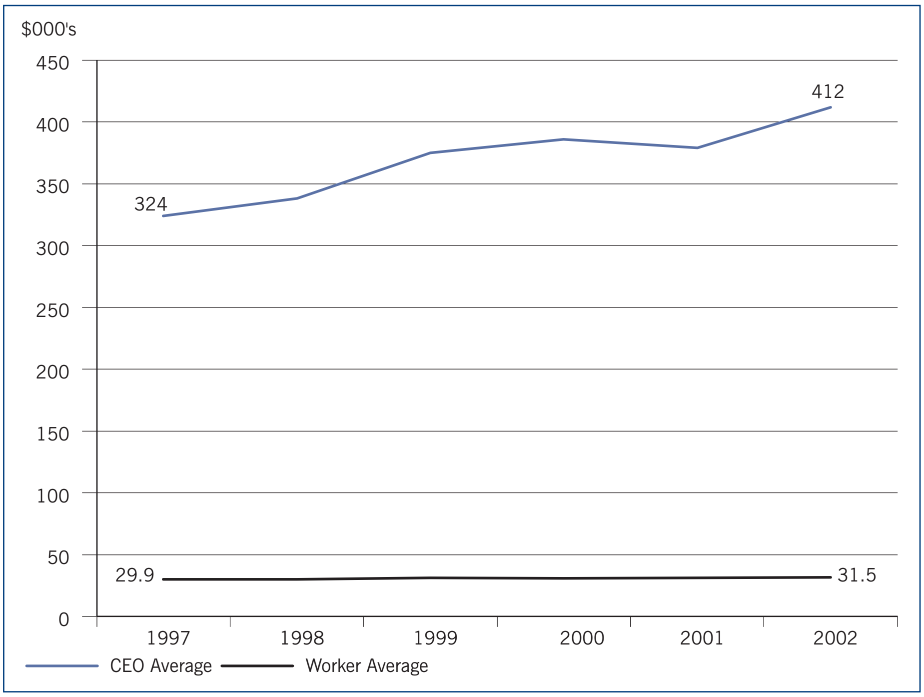


Source: Analysis of IRD data for wage and salary taxable incomes. Top 0.1% and Top 1% incomes are estimated assuming a Pareto distribution

At the other end of the income scale, a recent Treasury report estimated that in the year to March 2014 about 30% of households with dependants earned wages below the then living wage of $18.40 an hour. It estimated that 45% of wage earners earned less than $18.40, of whom 56% earned between the then minimum wage of $13.75 an hour and $15.00 an hour, and that included 60% of Māori and Pasifika workers:

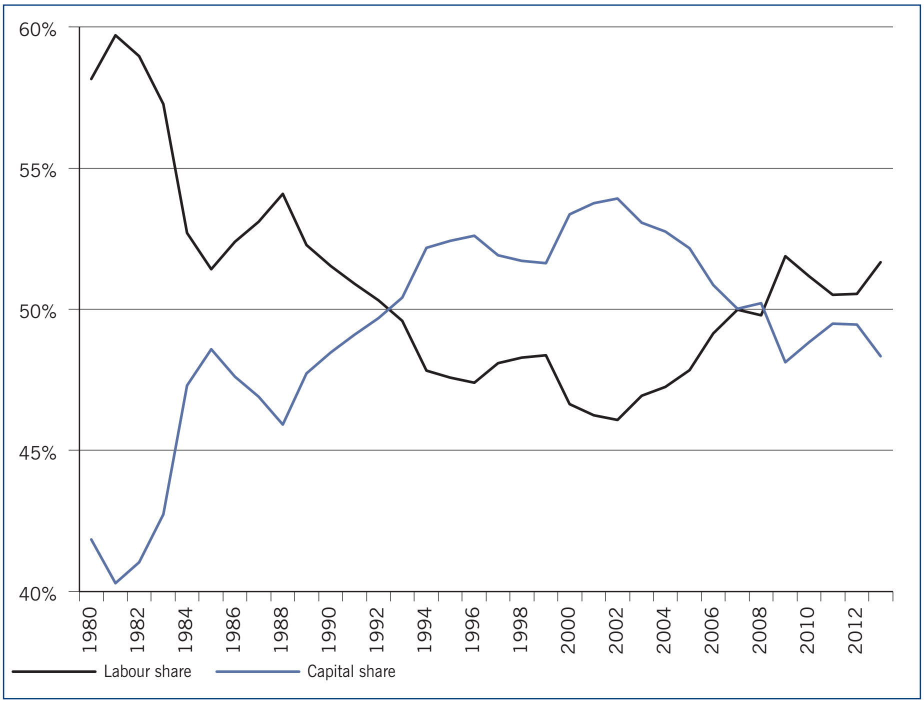
> Over half of the sole parents with dependants who are working have wage rates below the Living Wage, and most of these earn less than $15 per hour. In 25% of households with two adults and dependants, the principal earner of the household is on a wage rate below the Living Wage. This earner may also have income from other sources, but

Figure 5: Chief executive and worker real incomes 1997-2002



Source: Roberts (2005)

Figure 6: How the nation's income is shared



Source: National Accounts, series SND031AA, SNZ

> generally the partner and dependants will have an even lower wage rate if they are earning wages or a salary. (Galt and Palmer, 2013, pp.2, 7, 8

How much of New Zealand's income goes to wage and salary earners?

However, individual or household income inequality is not the only concern as to how income is distributed. 'Factor shares' describe how the income of the economy is shared between the factors of production, labour and capital. Like inequality in general, this is a rising international concern because of the fall of the labour income share in most OECD countries. The International Labour Organization and economist Thomas Piketty are among those who have analysed it in depth.

In the national accounts, the income generated by the economy is divided into 'compensation of employees' and 'gross operating surplus'. Compensation of employees includes wages and non-wage benefits such as employer superannuation contributions, Accident Compensation Corporation employer levies and medical insurance paid by the employer. Gross operating surplus includes interest, dividends and self-employed income (called mixed income because it includes income from both labour and capital). The labour share is compensation of employees as a proportion of the total income generated by the economy (which is notionally equal to GDP). The 'capital share' is gross operating surplus as a proportion of total income, and the two shares add up to 100% by definition.[3]

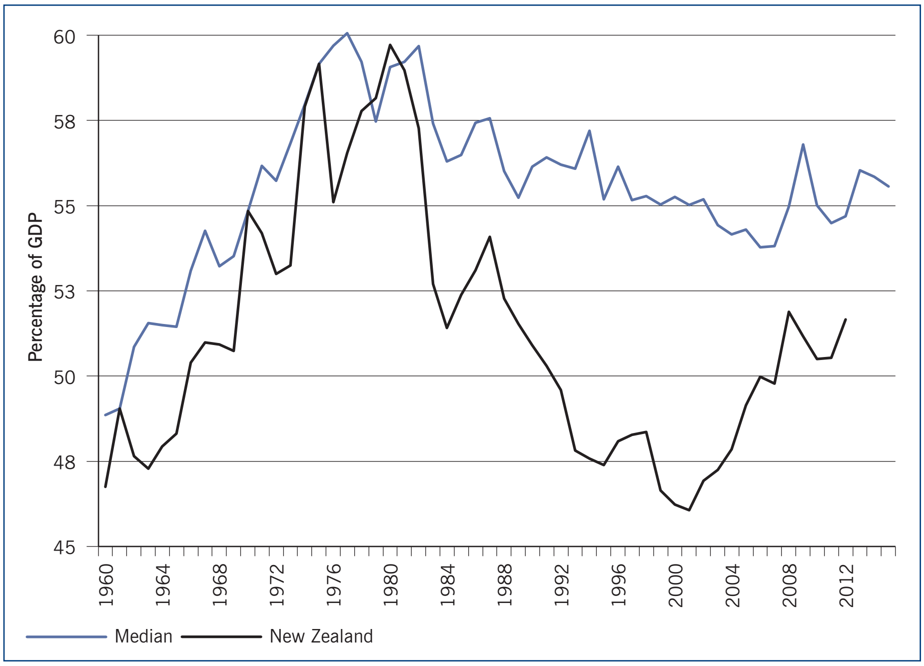
Sometimes the labour share is adjusted to include labour income of the self-employed, which has to be imputed because they do not necessarily pay themselves identifiable wages. There are various approaches to estimating the labour income of the self-employed, all of which have weaknesses.[4] While our focus here is on wages, we do need to recognise moves by employers to pressure or force employees into nominally self-employed dependent contractor ('outworking') situations in order to shed their responsibility for employment standards. However, adding in imputed self-employed labour income does not appear to make a significant difference to the picture of a substantial fall in the labour share (this is discussed further below). Changes in the labour share are closely related to whether real wage rises keep up with labour productivity increases, also discussed below.

As Figure 6 shows, the labour share of income fell from approximately 60% of income in the early 1980s to 46% in 2002 – a loss to wage earners of about a quarter of aggregate income. It then recovered to a little above 50%, but would need to be a sixth higher to return to its share in the early 1980s. In current dollar terms, that is a loss of about \$19bn per year, or \$10,000 per wage earner per year. The present value of the loss over that period is estimated at between \$660bn (at a discount rate equivalent to investment in term deposits) and \$1,200bn (at a discount rate equivalent to paying off a mortgage) or three to five times GDP.

New Zealand's labour share is relatively low by developed country standards. There are various sources of data for international comparisons: the United Nations, the OECD, Penn World Tables, and the European Commission's AMECO (annual macro-economic) database, which includes most OECD countries, including New Zealand. All international comparisons are problematic, but AMECO appears to provide the most consistent comparisons. It includes estimates back to 1960, which must be regarded as even more problematic than recent dates because of lack of international System of National Accounts (SNA) standards, adopted in New Zealand from the year ended March 1972 (1971 in figures 7a and 7b). But the general picture appears to be that New Zealand's labour share was broadly comparable to the OECD median until the 1980s and then fell well behind, before partially recovering from the early 2000s. For the adjusted labour income share, data is available only since 1986 for New Zealand (1985 in Figure 7b).[5]

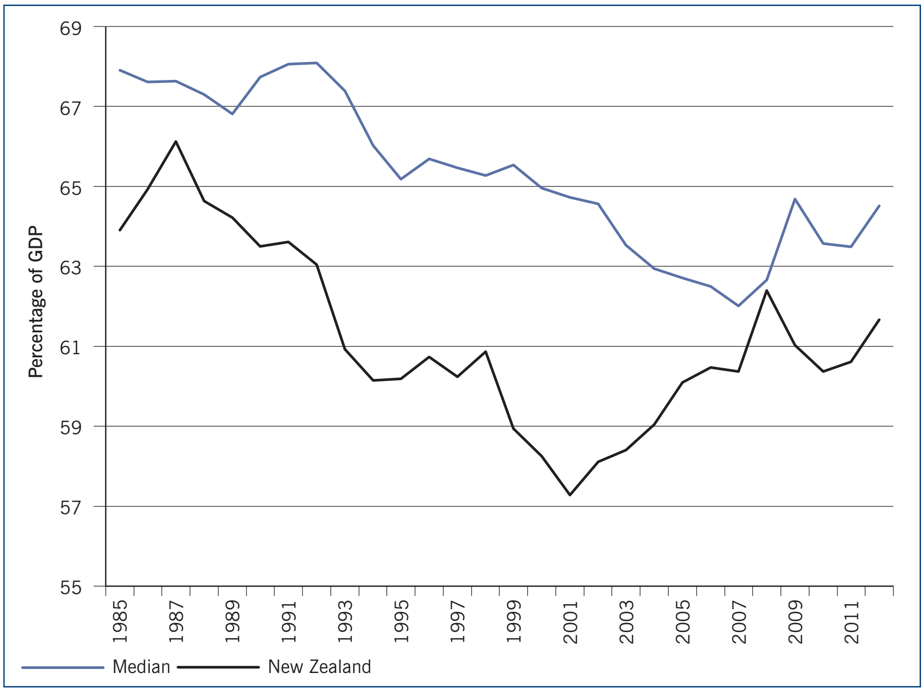
The distribution across types of income also can be seen in Figure 8, which shows household disposable income by main income source. The blue bars show estimates of the income from the Household Economic Survey, which is used for most income analyses. The dark grey result from work in progress by Statistics New Zealand analysing the distribution of the national accounts (Cope, 2013). They add income that can be observed in the economy as a whole and must be benefiting some households but is not reported in the HES. While values should be taken as approximate given the status of this work, the largest change is for households whose main income is from property, which includes financial wealth as well as shares, real estate and other forms of wealth. Their income approximately doubles when this 'hidden' income is recognised, and they are by far the highest-income households on average, followed by self-employed (presumably dominated by high-income professionals, farmers and successful small business owners), with wage and salary earners ahead only of those relying mainly on welfare benefits ('Transfers and others').

Figure 7a: Labour income share compared to OECD median



Sources: OECD: AMECO series UWCD, UOGD; New Zealand: SNZ, author's calculations

Figure 7b: Adjusted labour income share compared to OECD median

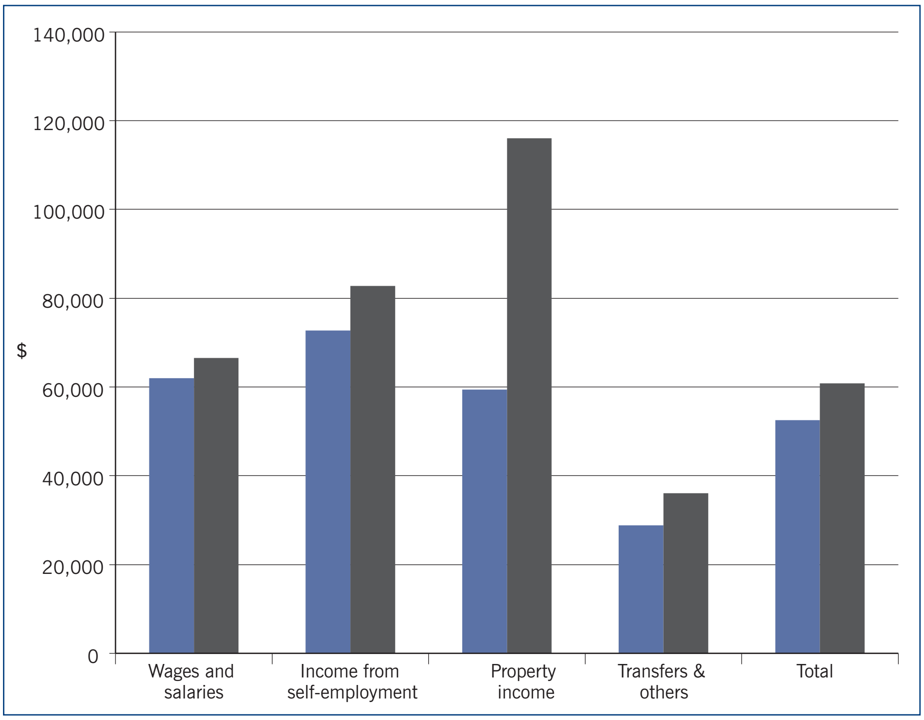


Sources: OECD: AMECO, series ALCD2 New Zealand; SNZ, author's calculations

The big loss of income share to labour could have been due to the radical shift in New Zealand's industry structure, particularly during the 1980s and 1990s, which destroyed many relatively high-paying, high-value-add industries but replaced them largely with low-paid service industries. However, a shift-share analysis which breaks down the changes in labour share into those due to shifts in industrial structure and those due to changes within an industry indicates that the big structural changes largely cancelled each other out and the fall was overwhelmingly due to within-industry effects, especially during the 1990s.

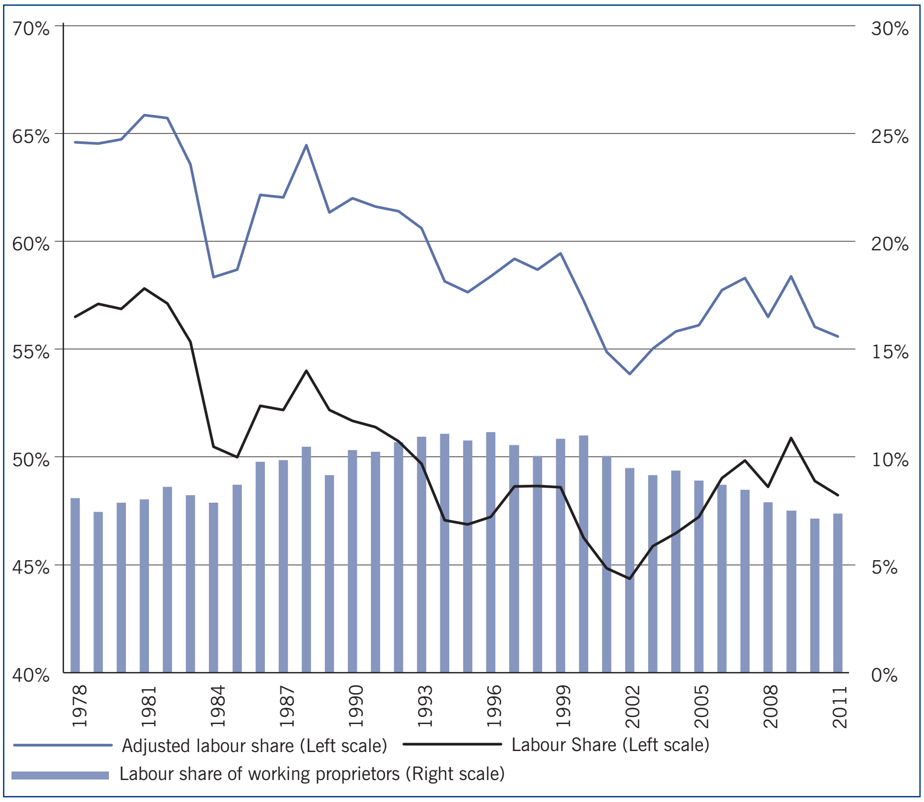
However, one significant structural change that would not necessarily show up in this analysis is the increased international financial integration that occurred over the period. The financial sector was growing relative to the rest of the economy, increasingly reliant on overseas funding and itself increasingly

Figure 8: Average household disposable income by main income source, 2006-07



Research in progress, SNZ

Figure 9: Adjusted and unadjusted labour share "former measured sector" excluding arts and recreation



Source: SNZ – National Accounts and Productivity statistics

overseas-owned. There was increasing financially-driven company takeover activity through debt-loaded leveraged buyouts, often by overseas-owned private equity investors, offshoring by New Zealand manufacturers, greatly reduced regulation of international capital movements, and a freely floating, heavily-traded dollar. The International Labour Organization (2013), while also finding that within-industry effects dominate, finds global financialisation to be the strongest factor in a falling labour share, and IMF researchers Jaumotte, Lall and Papageorgiou (2013) and Furceri and Loungani (2013) find that it contributes more generally to income inequality.

Could the low and falling labour income share be because of unusually high and rising capital intensity? This is unlikely, because New Zealand is known to have low capital intensity relative to Australia and other OECD countries (Conway and Meehan, 2013; Mason, 2013). There was strong growth in capital intensity for about six years between the late 1980s and early 1990s, when the labour share was falling. However, the share continued to fall even when this growth fell away, and capital intensity growth was also reasonably strong in the 2000s when the labour share was growing. Capital intensity growth was low to moderate by OECD standards over the whole period (Conway and Meehan, 2013, p.26). Indeed, in 2005 Hall and Scobie concluded:

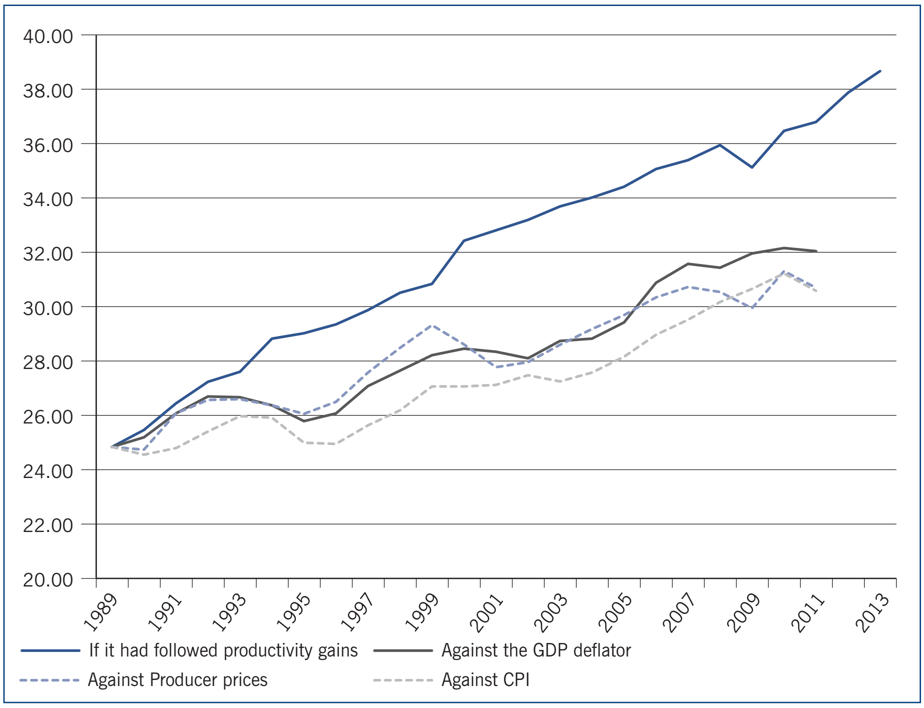
> We find that the capital intensity in New Zealand has not been increasing as fast as in Australia for nearly 25 years. Between 1995 and 2002, lower capital intensity explains 70% of the difference in output per hour worked. Whereas the cost of labour relative to capital has been rising in Australia, it has fallen by 20% in New Zealand between 1987 and 2002. The relative price of labour to capital in New Zealand fell to 60% of the Australian value in 2002 after being comparable in the late 1980s. It is to be expected that New Zealand enterprises would therefore tend to adopt less capital intensive production methods.

The International Labour Organization (2013) and Stockhammer (2009) find that technology made only a small contribution to the fall in the labour share in developed countries.

Another possibility is that there was a move from wage work to self-employment. There has long been concern that employees have been forced into much less secure employment relationships as dependent contractors. As far as the available data allows us to say, there is some effect of growth in self-employment income, but not enough to substantially change the picture of falling labour share. Figure 9 shows the comparison for a substantial part of the market sector of the economy.[6] Self-employment peaked around 2000 and then returned to levels similar to the 1980s, whether looking at number of workers or hours paid. As with industry restructuring, this hides big changes. Data provided by Statistics New Zealand shows that there was a fall in the proportion of paid hours worked by the self-employed in agriculture, forestry and fishing, the sector with most intensive self-employment, from 60–65% in the 1980s and 1990s to around 45% this decade. This was counterbalanced by a big increase in the large and rapidly growing professional, scientific and technical services sector, plus smaller contributions from elsewhere (for more details see Rosenberg, 2014). However, it is not clear how much of this increase is due to increases in traditionally self-employed occupations and how much has been forced by dependent contracting.

Finally, there is the possibility that the fall in labour share results from a significant fall in employees' bargaining power compared to their employers. There have been structural and institutional changes that make this credible, and it is consistent with Piketty's analysis of the international fall in the labour share, perhaps summed up in his statement that 'in every country the history of inequality is political – and chaotic' (Piketty, 2014, p.286). In other words, institutions and policies are all-important. The wage freeze of 1982–84, for example, coincides with a sharp but largely temporary fall in the labour share. The OECD in its major study on wage inequality, *Divided We Stand: why inequality keeps rising* (2011), found that the strongest single driver was institutions and policies, particularly labour market institutions and policies reducing inequality (including union coverage, product market regulation, employment protection legislation and tax wedges). Further, while trade integration as such showed no significant effect on inequality, imports from low- or medium-income developing countries

Figure 10: Real compensation of employees per hour compared to labour productivity March 2014 dollars (for CPI), measured sector



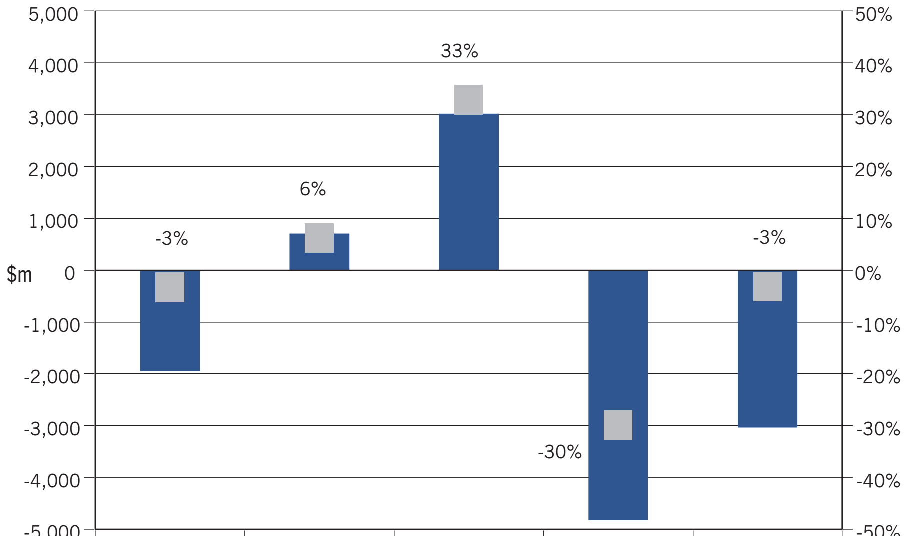
Source: SNZ, author's calculations

had a significant negative effect when the importing country had weak employment protection legislation (as with New Zealand), and particularly when the source country was low-income (such as China). Similarly, the International Labour Organization (2013) finds that government consumption and union density are major contributors to the fall in the labour share.

While this is not the place for a full narrative of the policy and institutional changes over this period, some examples are obvious and are consistent with the drivers described by the researchers above. The period was one of rapid opening of the economy which substantially reduced employee bargaining power through lower-cost imports, outsourcing and shifts of production overseas. Around the same time there was radical deregulation of the labour market (through the Employment Contracts Act 1991), which removed the award system and national collective bargaining. Together with changes in the late 1980s, this contributed to a steep decline in union density and collective bargaining. Union density fell from 69% in the early 1980s to its present level of around 20%, most of the fall being by the mid-1990s, one of the steepest falls in the OECD. The sharp and permanent fall in welfare benefits in the 1991 Budget relative to the average wage reduced reservation wages. The minimum wage fell between 1990 and 1999 from 43% to 40% of the average wage. Over this period the labour share was on a falling trend. It bottomed out in 2002 and rose until 2009, but to a level below the 1980s. A new employment law in 2000 (the Employment Relations Act) mildly strengthened collective bargaining, and was amended in 2004 to strengthen it further; this was followed by a national campaign for wage rises by unions ('5% in 05'). However, collective bargaining coverage is now not only low, but has the lowest extension beyond union members of 21 OECD countries surveyed by the International Trade Union Confederation (2013, pp.28-9). There were strong rises in the minimum wage (from 40% to 49% of the average wage between 1999 and 2009, most of which was between 2003 and 2008). There was a local recession in 2008, followed by the global financial crisis and the drawn-out international recession, combined with further changes to employment law and welfare benefits.

The loss of bargaining power and employment protection provides a stronger explanation for the loss in labour share, is consistent with the

Figure 11: Gross saving and saving rate by main income source, 2006-07



	Wages and Salaries	Income from self-Employment	Property income	Transfers and Others	Total
Saving	-1,945	711	3,018	-4,825	-3,040
Saving Rate	-3%	6%	33%	-30%	-3%

Research in progress, Statistics NZ

description by Hall and Scobie (2005), and is recognised as a significant factor in similar trends in other OECD countries by the research quoted above, and in other studies (e.g. Blanchard, Jaumotte and Loungani, 2013; Card, Lemieux and Riddell, 2003; DiNardo, Fortin and Lemieux, 1995; Fournier and Koske, 2012; International Monetary Fund and International Labour Organization, 2010; Kumhof and Rancière, 2010; OECD, 2012; Western and Rosenfeld, 2011) .

Wages and productivity

As mentioned, a falling labour share can indicate real wages falling behind productivity growth. That has indeed been the case. Wage increases have fallen well behind labour productivity increases in the sector of the economy over which productivity is measured by Statistics New Zealand.[7] Between 1989 and 2011 the consumer wage, measured by compensation of employees per hour paid[8] deflated by the consumer price index, rose 23%; the producer wage – compensation of employees per hour deflated by the GDP deflator – rose 29%, or 24% deflated by the producer price index for outputs; while labour productivity rose 48% (see Figure 10). Between the trough of the recent recession in 2009 and 2013, labour productivity rose 10.1%, the consumer average wage rose 1.5% and the producer average wage (using the GDP deflator) rose 3.3%.

Implications

Increased wage inequality, or a fall in the wages share in the economy, has consequences. Low labour incomes weaken aggregate demand and the domestic sales of local firms (Onaran and Galanis, 2012; Stockhammer, 2011; Stockhammer, Onaran and Ederer, 2007; Storm and Naastepad, 2011). High inequality creates pressures on governments to compensate people for their loss. Working for Families is an example. Effectively a wage subsidy, it is falling in real terms as a result of frozen thresholds, but even at $2.5bn is small compared to the $19bn annual loss in labour share. Even then, it has set up dynamics that maintain the low-wage structure, and consequently in the long run increase the pressure to subsidise wages.

Low wages also have implications for savings. Figure 11 also comes from the work by Statistics New Zealand (Cope, 2013). It shows negative savings on average in households whose main source of income is from wages and salaries or from benefits. Only households whose main source of income is from property (wealth) saved significantly. Household saving as a proportion of disposable income across all households shows a very similar pattern to the labour share since the late 1980s. Saving became negative in 1995, continued to fall until 2003, then recovered as the labour share increased.

To recap, the International Labour Organization research quoted above attributes falling labour share in developed economies to increased financialisation (46%), globalisation (19%) and technology (10%), and loss of employee bargaining power, de-unionisation and falling government spending (25%). Increases in unemployment also contribute. Other research finds the factors affecting wage inequality overlap with these.

We can conclude that when major changes are made to the economy, such as those in the 1980s and 1990s, unless countervailing measures are maintained or put in place, inequality will rise and the share of wages in the nation's income will fall, at the expense of the welfare of many wage and salary earners. Such changes include globalisation – especially intensified international financialisation – and more intensive use of technology, though this has less effect on the labour share of income. In other words, the lack of such coordination results in winners and losers rather than equitable sharing of any benefits. The winners will be owners of capital, and employees or self-employed in advantageous bargaining positions. Governments during the 1980s and particularly the 1990s signally and often deliberately weakened or removed the countervailing measures. Effective countervailing measures include employment protections, support for collective bargaining and unionisation, a strong public welfare system and progressive taxation.

1 The share may in fact be somewhat lower because of income, mainly from self-employment and investment, which appears to be under-reported in the HES. The national accounts for the household sector show compensation of employees, which is a wider measure of cost to employers than wages, as 73.5% of primary income in 2012 (it was 75.7% in 1987 and fell to around 70% in the early 2000s) after deduction of the non-cash items of imputed income from home ownership and earnings attributed to insurance and pension policy holders, which is approximately equivalent to 'market income' (depending upon the definition of the latter). It was 59.5% of total income after deduction of non-cash and non-recurring items that could be identified as such. However, the trend, as in the HES, is for the share to be increasing, at least since 2000. The household sector accounts for 2012 showed entrepreneurial income as 12.9%

of this measure of total income, whereas the HES showed self-employed income as 4.4%, and the household sector accounts showed property income as 8.6% compared to 4.4% in the HES, and these discrepancies occur throughout the years where data is available.

2 Available at http://www.ird.govt.nz/aboutir/external-stats/revenue-refunds/wage-salary-dist-for-ind/.

3 Before taxes on production less subsidies.

4 The most common is to assume the self-employed pay themselves at the average wage rate for employees in the same industry, sometimes capped by mixed income (if the data is available, unlike in New Zealand). A second is to share mixed income between labour and capital income in the same proportion as between compensation of employees and remaining gross operating surplus. A third is to assume their capital receives the same return as the industry as a whole and allocate the remainder to labour, but this is often difficult to calculate. For a more thorough discussion see Inklaar and Timmer (2013, p.16 ff) or Piketty (2014, p.204), both of whom prefer the second method.

5 See UN data, http://data.un.org, Table 4.1, Total Economy (S.1); direct link: http://tinyurl.com/og3o3tf. OECD Labour Income Share can be found at http://stats.oecd.org/Index.aspx?DataSetCode=ULC_ANN; Penn World Tables (PWT) are at http://www.rug.nl/research/ggdc/data/penn-world-table. The AMECO database is at http://ec.europa.eu/economy_finance/db_indicators/ameco/. The problems with the various data sets are briefly as follows. The UN data has partial coverage by years, and no calculation for adjusted labour share. The OECD data, which is adjusted for labour share, has been discontinued, and uses inappropriate data for New Zealand, underestimating the New Zealand adjusted labour share. Replacing that with a consistent estimate makes the data set very similar to AMECO, but it is not as well documented and does not have the breadth of different series. PWT appears to have gaps in its series for New Zealand which are interpolated, and it uses five different methods for estimating adjusted labour share (Inklaar and Timmer, 2013). While this improves validity for individual countries, it reduces comparability between countries. Like the OECD, AMECO has incorrect data for New Zealand for self-employment, which has been replaced for the comparison here, and the national accounts series have been updated to the latest available at time of writing OECD, AMECO and PWT all adjust the labour share for New Zealand, and for all countries in the case of OECD and AMECO, by multiplying the labour share by total employment divided by wage and salary (employee) employment. While considerably less than ideal, this has the merit of using widely-available data and being consistent between countries. It implicitly assumes the self-employed receive the same annual labour income as employees. Whole-economy New Zealand data for self-employment is available only from 1986, from the Household Labour Force Survey. Consistent with the data set, years ended March are attributed to the previous year in AMECO.

6 The adjusted labour share is from a Statistics New Zealand estimate for 11 sectors of the economy in its productivity series (Infoshare series PRD018AA). Although Statistics New Zealand does not use the preferred method described in note 4, it adjusts using hours worked capped by mixed income, which is better than using persons employed.

7 Measured sector productivity is available only from 1996, but is extrapolated back from 1996 to 1989 using the published productivity series for a subset of industries, the former measured sector, which constituted over 80% of it during this period. The year 1989 is chosen as approximately when the divergence of wages and productivity appears to have begun and also is the first year of the Quarterly Employment Survey average wage series. The GDP deflator was calculated at basic prices (i.e. excluding producer taxes less subsidies) for the measured sector to 2011 and extrapolated to 2012 using the GDP expenditure deflator, which it closely matches.

8 The wage measure is calculated by dividing compensation of employees for the measured sector by the number of paid hours worked by employees in the sector (provided by Statistics New Zealand). The GDP deflator is calculated for the measured sector at basic prices (i.e. excluding producer taxes less subsidies).

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Simon Chapple, Sean Hogan, Barry Milne,
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Wealth Inequality among New Zealand's Generation X

Generation X, denoting the post-baby boom generation, is a term typically used to describe those born between the mid-1960s and early 1980s. The well-known Dunedin Multidisciplinary Health and Development Study cohort, born in 1972/73, are therefore near the middle of Generation X. The Dunedin cohort was born in fairly stable social circumstances. As children they experienced the social changes of 1970s New Zealand – the rise of sole-parent families, a deteriorating job market and a stagnating economy. They went through the economic reforms of the 1980s as high school students, and attended university or entered the labour market during the recession of 1989–92. They were faced with user pays in the higher education system, first through full fees and then student loans. They face the prospect of being more reliant on their own resources for providing for their living standards during their retirement than previous generations. Whether this cohort has accumulated assets, and if so how, is therefore of great interest.

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Table 1: Assets, liabilities and wealth (rounded to the nearest $100)

Asset type	% with asset/ liability	Mean $ value	Median $ value	Maximum value
Home	60.3	$282,800	$240,000	$4,500,000
Farm	1.1	$4,900	0	$1,496,700
Business	17.5	$80,400	0	$6,000,000
Holiday home	5.6	$15,100	0	$935,400
Rental property	17.1	$87,000	0	$5,411,100
Shares	18.5	$13,000	0	$1,600,000
Managed funds	45.0	$21,200	0	$1,082,400
Savings account	63.0	$19,100	$2,000	$2,400,000
Term deposit	11.8	$5,000	0	$297,000
Car	88.5	$16,900	$10,000	$198,000
Other	26.1	$18,600	0	$800,000
Gross assets	N/A	$561,300	$338,000	$11,133,500
Liability type				
Mortgage	60.6	$169,700	$100,000	$3,789,400
Bank loan	31.6	$20,900	0	$4,500,000
Student loan	19.6	$3,800	0	$258,000
Credit card	37.3	$1,700	0	$39,600
End-of-month debt	4.9	$300	0	$60,000
Other debt	16.4	$600	0	$59,400
Gross liabilities	N/A	$197,100	$116,000	$4,520,000
Wealth				
	N/A	$364,200	$167,500	$7,344,100

Wealth is how much one owns, as opposed to how much one makes. It reflects a total sum of deferred consumption. Wealth inequality, thanks to Thomas Piketty's recent work, is back in the news (Piketty, 2014). In New Zealand, the 2001 Household Savings Survey and the Survey of Family Income and Employment (SoFIE) have been used as sources of information on wealth and wealth distribution in recent times (Statistics New Zealand, 2008; Le, Gibson and Stillman, 2010). So what can the Dunedin study cohort tell us about wealth inequality for this generation of New Zealanders?

This article takes a largely descriptive consideration of wealth inequality using age-38 Dunedin study data. It will first look at the wealth distribution of the Dunedin study cohort, using the standard distributional moments (including Lorenz curve and Gini coefficients), as well as considering average group differences. It will then consider accounting for observed wealth inequality in terms of several very simple multivariate models. Finally, it provides suggestions for further research on wealth inequality among this cohort.

There are two age-related notions with respect to wealth worth considering in the context of the data. One is the oft-encountered notion in the popular media that wealth inequalities arise largely because of different policy treatments and economic conditions facing different age cohorts. The second notion is that wealth inequality is all about the life cycle. People begin their working lives by having few assets, or even negative net wealth, which is, however, offset by human capital accumulation in formal education. As they move into a career, applying their accumulated human capital and further acquiring on-the-job human capital, their incomes rise and they begin saving. Their net wealth peaks at retirement, and is drawn down to maintain living standards until the expected age of death. Thus, wealth inequality is driven by people's age (as opposed to cohort experiences).

The Dunedin study cohort has certain strengths for consideration of wealth inequality among Generation X. It is a large population sample of New Zealanders born in 1972/73. It includes New Zealanders who live offshore, which most of our surveys do not. The cohort has had considerable information collected about child and adult outcomes and traits, which other New Zealand studies of wealth do not. In addition, although the cohort was slightly socio-economically advantaged compared to the New Zealand-wide age cohort of the time, it captures the range of New Zealand socio-economic exposures. It also has certain limitations. In particular, due to its geographic structure it has an under-representation of Māori and other ethnic minorities, even compared to the New Zealand norms in 1972–73.

Describing and comparing wealth inequality for the Dunedin cohort at age 38

While the Dunedin study cohort has been clinically assessed as adults at ages 21, 26 and 32, age 38 was the first round of data collection where there was a complete picture able to be formed of all the assets and liabilities of the study members. Table 1 provides a basic description of asset and liability holdings for the cohort at age 38. Average net worth is $364,000, considerably more than the median value of $168,000, a pattern typical of wealth distributions, which have a strong rightward skew. The most common asset is a car, followed by a savings account and (closely) a home. All other types of assets are owned by a minority of the cohort. Overall, real estate accounts for well over two-thirds – 69% – of this cohort's asset holdings. This figure is considerably higher than the 51% for New Zealand as a whole taken from the SoFIE data for 2006 (Le, Gibson and Stillman, 2010, Table 1).

Not surprisingly, given the importance of real estate, mortgages dominate the liabilities, making up 85% of the total. Mortgages are the only liability owned by a majority of the cohort. One in five of the cohort still has a student loan. The overall average value of student loans is only $3,800, indicating that such loans are not an especially important liability overall. Even for those who have a student loan, the overall average value is below $20,000.

The composition of assets by different types at age 38 is shown in Figure 1. More than two-thirds of assets are in the form of homes (this figure misses some of the value of farms, which may also reflect a farmhouse, but the omission will be unimportant as there are relatively few farms owned). Businesses and farms (the latter mostly a business form) account for a further one dollar in every six of gross assets. Shares and managed funds account for only six cents in every dollar of assets. Other categories are even more minor.

Figure 2 presents the Lorenz curve for the 38-year-old Dunedin cohort. Wealth is clearly unequally distributed, a standard result. In net terms, the bottom 30% of the cohort owns nothing. The bottom 70% of the cohort owns 20% of the wealth. The top 20% of the cohort owns about 70% of the wealth. The top 10% of the cohort owns 50% of the cohort wealth and the top 5% owns over one third of the cohort wealth. These findings on wealth inequality pretty much match the more general New Zealand SoFIE findings, where the poorest 30% of the population have almost no wealth, 20% of total wealth is owned by the bottom 70% of the population, and the top 20% of the population owns around 70% of total wealth (Le, Gibson and Stillman, 2010, p.4).

Table 2 presents a variety of more detailed summary measures of wealth inequality for the Dunedin Generation X cohort and compares them to those of the New Zealand population as a whole. The measures are generally very similar. However, there is less inequality in the Dunedin cohort at the bottom end, as measured by the ratio of the 50th percentile to the 25th percentile. Additionally, there is rather more inequality at the top, based on the ratio of the 90th to the 50th percentile. In addition, the proportion with zero or negative net worth in the Dunedin cohort is higher than for New Zealand as a whole. It should be noted that the levels of wealth inequality among the Dunedin cohort, and indeed shown in the other New Zealand data, are neither especially high nor especially low by world rich-country standards (see, for example, Piketty, 2014, Table 7.2).

Table 3 considers average wealth by various groups. Males in the cohort report over $40,000 more in net wealth than females. The gender wealth gap is nearly 13% (and is very similar to that found in

Figure 1: The composition of gross assets at age 38

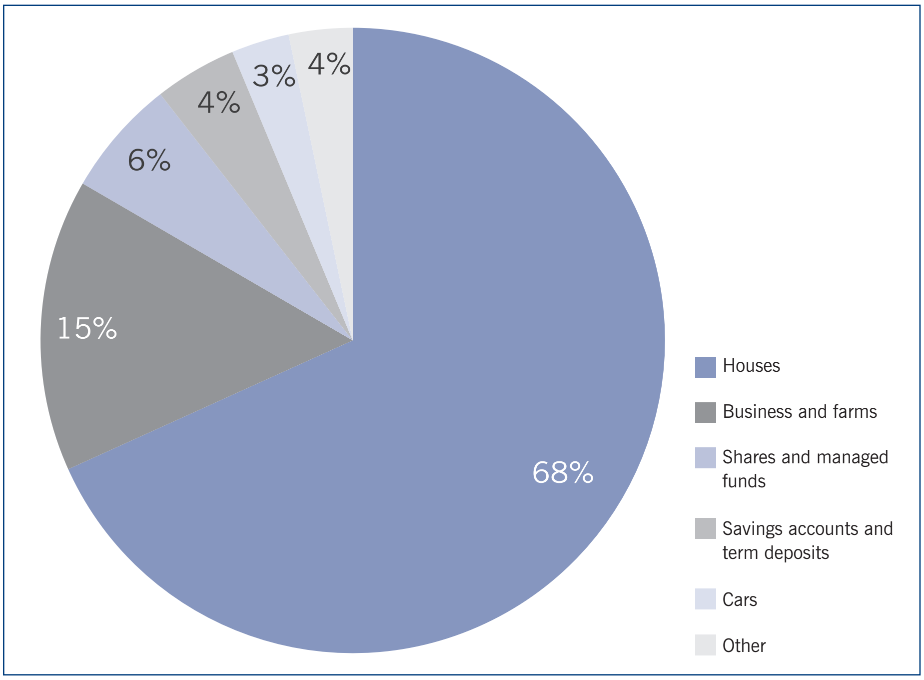

Figure 2: Lorenz curve for the Dunedin cohort

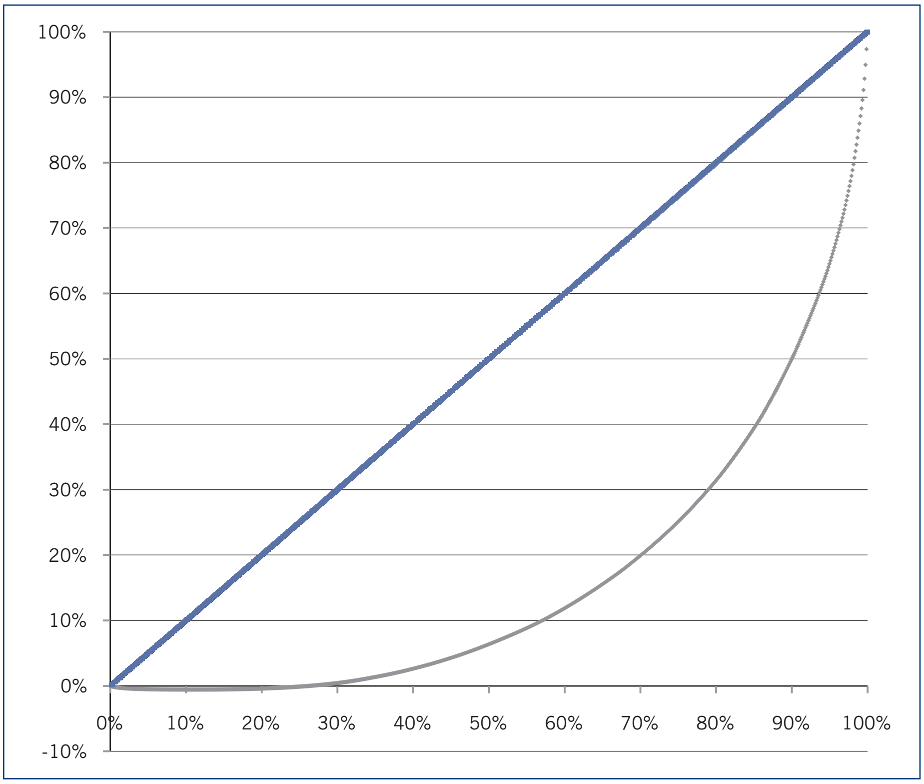

Table 2: Net worth distribution in SoFIE 2006, all ages, and Dunedin age 38 compared

Measure	2006 SoFIE, all ages	Age 38 Dunedin
Mean to median ratio	2.3	2.2
P50/P25 ratio	7.5	5.7
P75/P50 ratio	2.5	2.5
P90/P50 ratio	4.9	5.2
Gini	0.70	0.68
Share zero or negative	6.9%	11.1%

Note: all age SoFIE data taken from Table 2 of Le, Gibson and Stillman (2010)

Table 3: Wealth by group in the Dunedin study

	Mean
Gender	
Male	$386,000
Female	$342,600
Partner status	
Partnered	$458,800
Single	$121,000
Male single	$115,000
Female single	$127,000
Location	
New Zealand	$330,600
Australia	$403,400
Other country	$702,400
Parental SES to age 15	
Top 20%	$464,300
Middle 60%	$385,300
Bottom 20%	$215,200
IQ	
110>	$449,300
90-110	$317,600
<90	$256,300

SoFIE 2006). The gender gap in wealth is a considerably smaller percentage gap than the gender gap in annual incomes observed in the cohort at age 38. The wealth gap thus only proximately reflects lower female incomes.

Partnered people at age 38 (this includes both married and de facto relationships) report nearly four times more net worth than singles. It is possible, indeed likely, that when asked for the value of assets or liabilities, some study members include all assets held jointly with their partner. The fact that the difference is so large (much more than double that of singles) strongly suggests that: (1) there is a strong degree of assortative mating for wealth; (2) partnerships are likely to be productive for wealth accumulation; or (3) relationship dissolution by age 38 reduces wealth accumulation. Obviously these explanations are not mutually exclusive.

Unlike other studies of wealth in New Zealand, which consider the wealth of those domiciled within the national boundary, both New Zealand and foreign-born, the Dunedin study gives a glimpse into the wealth of the New Zealand-born who leave the country. Study members living in New Zealand had over $70,000 less in assets than those living in Australia. However, those in the cohort living outside Australia and New Zealand had considerably more than double the assets of those who remained behind in New Zealand. Of course, there is almost certainly a strong element of selection of the successful into emigration, as well as possible greater opportunities for wealth accumulation by living offshore.

Those who were brought up in higher socio-economic groups during their childhoods tend to have higher wealth. The group whose parents were among the top 20% had $249,000 more wealth than those whose parents' socio-economic status placed them in the bottom 20%, and $79,000 more than the middle. Lastly, those whose childhood average IQ was higher than 110 had $193,000 more wealth than those whose IQ was less than 90, and $132,000 more than those whose IQ was in the 90–110 range.

Explaining wealth inequality at age 38

In a proximate sense, there are a number of routes people may take to wealth at age 38. (The fact that people are followed only to age 38 of course limits a complete treatment of wealth inequality over the life cycle.) The most self-evident route to wealth is spending less money than one is making ('saving'). Those with higher longer-term incomes have greater capacity for saving, and thus more wealth. Another route to wealth is the ownership of assets which rise in relative price ('capital gains'). Real asset price growth may arise via active entrepreneurship, which creates social as well as private value (such as developing a new business), or rent-seeking behaviours, which create private but not social value. Real asset price growth may also take place via more passive investment: for example, through buying shares or acquiring a house which rises rapidly in price.

Another pathway to wealth acquisition is direct transfers of wealth as a result of gifts or inheritance (or, very occasionally, a lottery win). *Inter vivos* transfers occur between the living, when wealth is transferred from, most often, parents, a spouse or other relatives. Piketty (2014) provides evidence of a considerable amount of wealth transfer from parents to children as gifts. As well as *inter vivos* transfers, wealth can be transferred through inheritance on death of parents, spouses and, much less often and significantly, other relatives.

In addition, marriage or partnering, under the law, means almost automatic wealth acquisition if one's partner has assets, at least after a certain amount of time has passed or the union results in children.

Several simple models of wealth are here considered to ascertain the influences on wealth formation to age 38. Among other things, the models allow an examination of the statistical significance of the group differences shown in Table 3 and the power of the model for explaining wealth inequality.

The first model is a very simple one, from which to assess and compare the others, and accounts for wealth in terms of people being partnered or not. This model encapsulates variation due to: (1) wealth mis-measurement due to partnered people potentially reporting shared wealth; (2) assortative mating on wealth or characteristics conducive to the accumulation of wealth (such as a stronger shared future focus and a shared ability to delay gratification); and (3) sustained intimate partnerships as an efficient vehicle for the accumulation of wealth.

Table 4: Simple models of wealth inequality among the Dunedin cohort: $ impact on wealth at age 38

Variable	Model 1	Model 2	Model 3
Partnered	**$337,800**		
Female		-$37,600	
Parental SES		**$73,200**	
IQ (point)			**$5,600**
R^2	0.052	0.016	0.013

Note: numbers in bold statistically significant at a 5% level

Table 5: Simple models annual personal income inequality among the Dunedin cohort: $ impact on income at age 38

Variable	Model 1	Model 2	Model 3
Partnered	**$8,291**		
Female		**-$38,700**	
Parental SES		**$8,700**	
IQ (point)			**$1,100**
R^2	0.006	0.187	0.091

Note: numbers in bold statistically significant at a 5% level

Those on the left of the political spectrum sometimes favour a simple model where a person's adult outcome is a function of a few aggregate macro group memberships – typically their sex (or gender) and the social class from which they come. This is our second model. By contrast, those on the right of the political spectrum sometimes favour an explanation of wealth inequality based on the merits of the individual. Following Murray and Herrnstein's well-known book (1994), it is often their position that merit can be measured by a single variable, intelligence. The intelligence, or IQ, model is our third model.

The models are shown in Table 4. The simple partnering model explains a small but significant amount of wealth variation: a little above 5%. The impact of partnering on wealth is large in absolute terms. At this point, we should note that wealth is likely to be measured with considerable error, probably more than gross income, as typically it involves recall of many more asset values, which may be held in common with a spouse. Hence, measurement error may play a considerable role in the relatively low explanatory power of various models.

The gender and class model explains much less variation in wealth, less than 2%. Only the class proxy – socio-economic status – is statistically significant. At age 38, someone whose parents are at the top end of the socio-economic scale is predicted to have $360,000 more in assets than someone at the bottom of the scale. Each point in the socio-economic scale gets someone $73,000 more in wealth at age 38. Gender has a relatively small effect that is not statistically significant. Some of the low explanatory power of the model may be due to measurement error in the social class proxy.

The childhood IQ model also explains a low amount of wealth variation: again less than 2%. But IQ is also statistically significant, with each extra IQ point gaining a person $5,600 more wealth at age 38.

Unfortunately for the consideration of wealth inequality, we do not know which study members have been recipients of *inter vivos* or inheritance transfers of wealth from family members or ex-spouses at age 38, and what effect, if any, this would have in generating the levels of inequality we observe. Relatively few study members have both biological parents deceased at age 38, and these are the people most likely to inherit (if one parent dies, the other parent, not the child, is likely to inherit first): 17 study members for whom there is complete wealth information have two deceased parents at age 38. Their wealth averages $223,300, compared to the $367,800 in wealth of those who have one or more biological parents still living. (Multivariate consideration of the issue gives the same conclusion: parental death is not a positive factor in wealth accumulation by age 38.) Those who do have two dead parents at age 38 may be more likely to come from less wealthy backgrounds (because of a wealth gradient on mortality), and hence may be unlikely to inherit much.

The other key issue with inheritance is that those study members who are anticipating a large inheritance on their parents' demise may have little incentive to save during their prime earning years. These people are, naturally, more likely to come from advantaged backgrounds. Their existence and the incentive inheritance gives them not to accumulate may be a further reason for the relatively low predictive power of socio-economic status for wealth at age 38. If such a channel were operative, we would expect a stronger relationship between wealth and socio-economic status to emerge as the cohort ages further into their forties and fifties and the adult children of the wealthy begin to inherit. A further factor which is harder to assess is inheritance which skips a generation: inheritance from grandparents, rather than parents.

The wealth models can be contrasted with consideration of the same models but in terms of income inequality in Table 5. Particularly noteworthy is that partnering is a stronger route to wealth than to income, and gender plays a much more important role in annual income formation (at this age many women are wholly or partly withdrawn from the labour market for child-care reasons, and this will be a major driver of their personal income shortfall). Also of great interest is the much higher explanatory power of variables generally for income as compared to wealth. One reason for this finding is that wealth may be measured with more error than personal income.

Conclusions

This article has shown that there is considerable wealth inequality within Generation X by age 38. Indeed, there is almost as much wealth inequality within the age-38 generation as within the New Zealand population overall. The major causes of wealth inequality, therefore, need to be sought beyond the life cycle savings model and beyond the generational differences models discussed in our introduction.

As with the life cycle and generational differences notions, traditional models of inequality in wealth accumulation favoured by both the left and the right of the political spectrum do not account particularly well for wealth inequality among the cohort. While there may be measurement reasons behind such a finding, and while there are good reasons to think these models may do rather better as study members age, we may also need to spread our intellectual net much more widely than the traditional models if we are to better understand why some people are wealthy and others are not.

The relatively low amount of inequality that we can explain may reflect some reporting error, especially in the wealth measure. But it is also likely in part to reflect the results of chance – we exist in a society and economy where wealth has a lottery-like character. If wealth is, at least in part, lottery-like, then taxation of wealth is much less likely to have harmful efficiency effects than it would if wealth accumulation was a function of productivity-related characteristics.

Earlier work on wealth in the study suggests the importance of childhood self-control, as opposed to intelligence or socio-economic status, and this is a fertile direction for further investigation (see Moffitt et al., 2011). Future research could also examine the role of personality in wealth accumulation. Additionally, it would be of value to consider the relationship between people's wealth accumulation and their fertility decisions, both in terms of timing and in terms of numbers of children. Of course, issues of potential endogeneity of choices to have children or accumulate wealth become critical here. A consideration of the proximate role in lifetime income to age 38 in the context of assets accumulated by age 38 would be of a great deal of interest. Finally, a better understanding of the role of *inter vivos* and other transfers, both in terms of inheritance and partnering and separation, would be worth pursuing.

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Appendix: Data detail

The original cohort of the Dunedin study was 1037 three-year-olds. By age 38, 33 of the original cohort had died. 954 study members responded to the asset question at age 38.

Study members were asked whether they owned the following assets (yes or no) and their approximate value:

1 The property where you live
2 A farm or farms
3 A business or businesses
4 A holiday house
5 A rental property or properties
6 Shares
7 Managed funds
8 Savings account
9 Term deposits
10 A motor vehicle
11 Other major assets.

This was followed by similarly structured questions on liabilities:

1 A mortgage or mortgages
2 A loan from a bank, finance company, family member or friend
3 Student loans
4 Credit card debt
5 Any other moneys you will not be able to pay by the end of the month
6 Any other debt.

756 people completed all asset values required to fulfil the asset module. In most cases the failure to fill out individual values was because people were not aware of the value of one or more of their assets or liabilities. The main non-response was on the value of managed funds. This question is likely to cover KiwiSaver. The high non-response rate may be because people did not know the value of their KiwiSaver accounts.

A considerable number of study members were overseas and responded to the assets question in a foreign currency. To allow a common currency comparison, asset values were converted into New Zealand dollars using power parity exchange rates taken from OECD.Stat.

A Response to Mark Unsworth: Cui Bono?

In the November 2014 issue of *Policy Quarterly* Mark Unsworth, a partner at Saunders Unsworth, a lobbying and public policy consultancy, asks the question: was the Lobbying Disclosure Bill a solution to a problem that does not exist? He then states: 'Apart from the Green Party and some in academia, this was never a burning issue in NZ ...their strongest argument seems to be that NZ needs it because other countries have it.' In support of this assertion he very selectively cites one of the conclusions from Transparency International New Zealand's 2013 National Integrity System Assessment, to the effect that NZ's national integrity system remains fundamentally strong, and that by international standards there is very little corruption in NZ.

Unfortunately Unsworth omitted to refer to the overall conclusion of the TINZ report, which was contained in two places in the summary article he cites and which features prominently in the report itself:

> The core message of this report is that it is beyond time for serious and urgent action to protect and extend integrity in New Zealand.

Among the factors analysed in the report and cited in the Executive Summary that raise serious concerns about the influence of lobbyists are:

- Forty four per cent of respondents in the New Zealand Survey of Values 2005 thought the country was run by a few big interests looking after themselves rather than for the benefit of all people. Whether this perception is true or not, the fact that nearly half of those surveyed believe the country is run by a few big interests for their own benefit reflects a damaging lack of faith in our democracy.
- One of the four main weaknesses identified in the integrity of NZ's governance systems was the interface between political party finances and public funding, including the transparency of political party financing and of donations to individual politicians.
- Conflicts of interest are not always well managed in NZ's relatively small society.

Flowing from this analysis – which was supported by in-depth research by a number of independent and respected analysts – *the report recommended the introduction of*

> … measures that provide an adequate degree of transparency to ensure that public officials, citizens, and businesses can obtain sufficient information on, and scrutinise lobbying of members of Parliament and ministers (Recommendation 3.a.v).

Unsworth also briefly compares the risks from lobbying in NZ to a few selected other countries – Australia, the UK, and the USA, which he describes as 'neighbours' and as 'close allies.' Unsworth does not explain why we should compare NZ to the USA. We may or may not be 'close allies' but the USA has vastly different constitutional, historical, social and economic characteristics, factors that are usually considered relevant criteria when making cross-country comparisons in public policy. Could it be that Unsworth is using the USA as a 'straw man', to facilely conclude that, compared to the USA, NZ does not have a problem with the lobbying industry?

On the evidence of the TINZ National Integrity System Assessment there is a real concern about undue private influences on public policy in NZ; and, perhaps not surprisingly, on the evidence of Unsworth's article, it demonstrates the challenges of having an objective discussion about conflicts.

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