

A VISION TO OVERCOME THE GAP BETWEEN THE RICH AND THE POOR

Campbell Roberts, November 2012

Seminar address to

Mtumiki Njira an activist in Malawi said:

Contrary to the myths of the West, poverty does not breed crime. What breeds crime is gross wealth side by side with poverty. When we in Malawi were all poor together, you didn't need doors, let alone locks. Today, a grossly rich elite having been developed, one lives behind walls with bars on every window and door.

Contrary to the myths of the West, people living in poverty are not unhealthier or unhappier than those living in gross luxury. This is because poor people in general are rich with emotional, social, and spiritual wealth, all more important than material wealth for well-being. Western visitors to Africa are continually amazed at how happy poor people here are, not knowing that they are happy BECAUSE they are poor.

Studies done here and elsewhere show that perception of health and happiness actually go down as level of affluence rises. If poverty (as the West understands it) was eliminated worldwide, it would be an environmental catastrophe. The amount of wealth in the West is already an environmental disaster. Inequality is problem poverty is not.

Since Njira wrote those words such writings as 'Spirit Level' have started to move researchers to consider more deeply the impact of inequality and its consequence

In New Zealand during 2011 income inequality increased faster than in any other OECD country. Most of the increase was due to larger rises in overall incomes for the top 20 per cent of income earners. For the bottom 20 per cent their income actually decreased over the two decades from the mid-1980s. We have moved in the income equality stakes from a steady decrease in income inequality to a sharp increase in income inequity.

In comparing income inequality across countries the OECD uses the Gini coefficient. Gini coefficients measure income inequality, with a score of 100 indicating perfect inequality and a score of 0 indicating perfect equality. The most recent OECD comparison (from 2004) gives New Zealand a score of 34, indicating higher inequality than the OECD median of 31 and a ranking of 23rd equal out of 30 countries.

Mother Teresa said on one occasion:

'We think sometimes that poverty is only being hungry, naked and homeless. The poverty of being unwanted, unloved and uncared for is the greatest poverty.'

If people were loved and wanted then we would not allow them to be hungry, naked and homeless. In other words the poverty that we are looking at when we see growing inequality and unnecessary deprivation and hardship in New Zealand is firstly a poverty of compassion. We don't care enough. Secondly it is a poverty of imagination—we are unable to imagine a world that is driven by different priorities. In my view poverty and inequality is a distributional problem not a question of sufficiency.

The argument that poverty and inequality are a distributional choice is of course a moral argument—that is that as a society we have a choice over the extent of inequality and hence of the depth of any poverty which results. Such an argument was questioned by Bill English in a Listener interview in

February 2012 when he said ‘You don’t get that choice, actually. You don’t get the choice of saying I’d like less inequality. You don’t have the levers.’

Such a response perhaps illustrates the poverty of imagination which characterises the present public policy debate accepting that the poor will always be with us. If as English suggests there is nothing Governments can do about poverty and inequality—ie, by implication it is a natural phenomenon then how do we explain that different societies with different policy settings and frameworks have different levels of poverty/inequality.

That being so, the fundamental policy debate then is not over the tools we might be able to use to reduce poverty but over whether or not as a society we are interested in doing something. In other words gaining the political will to address poverty and growing inequality is the most immediate task.

What does inequality look like on the ground in New Zealand? Let me illustrate it from a couple of households I have recently shared with:

Household One

Mother and Father with two children

Net Income	\$2577.00
Housing Costs	\$1430.00
Total Income available after housing costs	\$1147.00

Household Two

Solo parent with 2 children

WINZ Letter

Dear.....

Your payments from Work and Income at the date of this letter are:

Weekly Rate of Income Support

DPB	\$293.58
Accommodation Supplement	\$165.00
Temporary Additional Support	\$48.64
Total Income Support	\$507.22

Weekly rate of deductions

Payment to Landlord	\$450.00
Advance offset	\$17.00
Total Deductions	\$467.00

TOTAL INCOME SUPPORT PAYABLE

\$40.22

Does that \$1107 a week gap matter for the future of those two children? Of course it matters. Even if the love attention and care of each of the parents is constant and comparable it will matter. It will matter in their nutrition, in their health resources, in their education, in their socialisation, in their housing, in their holidays and in other ways.

Income inequality of that degree matters, but of course it is not only at that extreme it matters. If the gap was only \$300.00 a week it would also make a difference in most of those areas. We cannot continue to allow that to happen to our children.

Let's remind ourselves of how that inequality is impacting New Zealand

- One in five children lives in 'severe or significant hardship'.
- 31 per cent of NZ children (0-17) live in overcrowded houses.
- NZ child mortality rates: 63.5 per 100,000 children aged 0-19.
OECD average = 53 per 100,000 children.
- A high youth suicide rate: 15.85 per 100,000 youth aged 15-19.
OECD average = 6.8 per 100,000 youth.
- NZ teen pregnancy rates are fifth highest: 23.4 births per 1000 women aged 15-19 (2005).
OECD average = 15.5 births per 1000 women aged 15-19.
- The Otago study shows Children from poorer households are experiencing outcomes at age 26, including higher rates of heart disease, alcohol and drug addiction and worse oral health (Poulton et al., 2002).
- Maori children who are 23 times more likely than European children to suffer rheumatic fever.
- 25 per cent of all Maori males spend some time in prison.
- 25 per cent of all Maori young people are unemployed.
- Pacific children are 4.5 times as likely as European children to be admitted to hospital for serious skin infections and 50 times more likely than European children to be admitted to hospital with acute rheumatic fever (ARF).

Despite the obvious problems of inequality we seem wedded to public policy interventions that either ignore or make worse inequality.

Work based solutions are seen as an important part of the present welfare reforms and Government policy. Work has benefits but to continue to push work based solutions in an environment when there is not enough jobs and non-matching skill mix of between vacancies and those seeking employment, is wrong and has the added impact of accentuating further inequality.

Many of those pushing work based solutions seem to feel there is something inherently valuable in work that will somehow deal with poverty and inequality. Prof Greg Duncan who is the present Frank Holmes Fellow at Victoria University has clearly shown in his longitudinal studies in the United States that work without a rise in income has little or no benefit. The real gain his team found is when income is in real terms increased as a result of work. Sometimes people are being put into work but when the costs of going to work and childcare are allowed for there is less household income. In

those situations of work inequality and the impacts of poverty are increased not decreased.

What is needed is increased income from work not just work for work sake. Duncan and his team are currently postulating that a \$3000 per child increase for those in households below the poverty line results in a \$25,000 increase in their earning capacity at age 25. If this result is sustained then it is clear that it is income not work that will deal to inequality and disadvantage.

Secondly we have social policies built on the belief that the major cause of inequality is because of poor budgeting and management skills. The solution is increased financial literacy and good budgeting. In the example I shared earlier no amount of smart budgeting is going to solve the problem. When you're after housing income for a family of three is under \$50-00 there is no messianic budgeting solution.

Thirdly we continue policies that make insufficient investment in education, particularly ECEC. Policies that mitigate towards a capture of the money by the middle class New Zealand further deepening inequality. Despite political and professional rhetoric on the value of early childhood education for reducing childhood inequality, there is little evidence such a reduction has been prioritised by those who have designed early childhood education policy in the past decade. There is certainly little evidence to suggest children from poorer communities have benefited to the same degree as middle class children from the rapid growth in Government spending on early childhood care and education (ECE) since 2006. While this inequity is not the result of indifference or malice on the part of those who have designed and approved funding for early childhood policy, the disappointing outcomes point to a poor understanding by politicians and their policy advisors of the limits of a paradigm which relies on demand subsidies and private sector investment decisions.

Just look at the current situation in South Auckland:

Table 15.8. Distribution of ECE places in Tamaki & South Auckland 2010 (Source: Education Counts ⁸)			
	Under 5's population (June 2010)	ECE enrolments (July 2010)	Enrolment as % of under 5's
Tamaki subdivision of Maungakiekie-Tamaki Ward	4,210	1,358	32%
- Panmure/Glen Innes/Point England	1,710	726	42%
Mangere-Otahuhu Local Board Area	9,234	3,144	34%
- Otahuhu	1,580	473	30%
- Mangere	7,654	2,671	35%
- Mangere – excluding Auckland Airport precinct	7,654	2,356	31%
Otara-Papatoetoe Local Board Area	7,140	3,276	46%
- Otara	4,095	1,395	34%
- Papatoetoe	3,046	1,881	64%
Manurewa Local Board Area	9,115	3,151	35%
- Manurewa west (west of railway line)	5,630	1,240	22%
- Manurewa east (east of railway line)	3,485	1,911	55%
Papakura Local Board Area	4,485	2,046	46%
- Papakura – core urban area	3,005	966	32%
South Auckland (excluding Tamaki)	29,974	11,890	40%
AUCKLAND REGION	108,980	56,225	52%
NEW ZEALAND	311,850	187,218	60%

Finally there is an appalling failure of housing policy in New Zealand. If we really wanted to do something about inequality in New Zealand then we would have addressed with a great deal more vigour and intentionality the need for access to safe affordable and healthy housing. I quote from Alan Johnson in the Social Policy and Parliamentary Units latest report on the political economy of housing in Auckland:

Our failure to ensure that all Aucklanders have a decent affordable home is due to institutional failures... We have developed, supported and nurtured systems which have sustained and even expanded inequality. These systems have allowed some Aucklanders to grow rich through property speculation and have allowed some Aucklanders to develop poor quality housing that not only leaks, but is ugly and unliveable. These systems have allowed some Aucklanders to occupy larger and larger houses while other Aucklanders live in more crowded houses and in sheds, garages and caravans. These systems have biased our tax system so that not only are house prices excessively inflated but now higher and higher public subsidies are required for modest income households to be able to afford any housing.

So given these and other policy inadequacies I focus on three areas which I believe we need can reduce inequality in New Zealand. They are:

1. The creation of a liveable wage: a family or household ought to be able to live without hardship on the minimum wages paid in the economy.
2. Reducing childhood poverty and deprivation: that the early years of a child life are foundational for their later development and we need to focus on programmes which improve the material and social wellbeing of New Zealand's poorest one fifth of children.
3. Housing: that poverty and inequality is being made worse by the present housing policy settings. This last area is vital because without a fundamental reform in housing policy and progress in housing a living wage and attempts to improve the material and social wellbeing of New Zealand's poorest children may simply leak into higher rents.

1. Addressing a Living Wage

Working for Families has created a number of compliance and take up issues that mean its effectiveness in dealing with inequality has been compromised. One alternative is to make the first \$5K to \$10K of income tax free for everyone. This would bring NZ in alignment with Australia. Apparently this is a must do when we are talking about the way the rich are taxed. It is interesting that those who are going to Australia –are not the rich but ordinary Kiwi families who we could usefully use in our economy and there loss deepens even further inequality. Other aspects that could help in dealing with this income issue are:

- reducing the compliance and administration costs of Working for Families and improving the take up rates
- reduce the taxes paid by young single people who often work for minimum wages and have student debts and often are the most vulnerable because of an absence of any supportive programmes such as housing
- reduce the poverty trap around moving from benefits into part-time work.

Such tax breaks have to be compensated for by tax increases elsewhere and if we are have a political consensus around reducing inequality it has to be based on the expectation that the well paid and the wealthy will pay more tax. A tax break at the bottom would be expensive but benefits everyone, so higher marginal tax rates further up the income scale will claw back this tax reduction for the higher paid (say over \$70K per year).

The minimum wage should rise progressively over the next three to five years to at least be commensurate with Australian wage levels for the lowest paid work. Many minimum wage jobs are in the service and care sectors and low wages here benefit high and middle income consumers and

the Government. If minimum wages are to rise then the Government will have to budget for this and be up-front that the extra costs will be met through higher taxation of the better off. As well if minimum wages are to rise, high and middle income consumers should expect to pay a little more for their groceries and espresso coffees—here reducing inequality will cost middle and high income groups a little but the impact is not at all dramatic.

Recent experience with minimum wage legislation suggests at least two things:

- Firstly the relationship between wage rates and employment creation is not as straightforward as some would have us believe – during the period 2000-2008 for example job numbers continued to grow despite the minimum wage rising from around \$9 per hour to \$12 per hour. Clearly there has been very slow growth in job numbers since 2008 but it is arguable that the reason for this is because low paid workers are being paid too much. The job market downturn is more likely a result of the slow-down in debt funded construction and the global recession – in other words reduced demand;
- secondly our minimum wage experience is that, as wages for those on the bottom rise so too do wages for those not far from the bottom – in other words minimum wage legislation is effective in raising incomes for a larger number of workers than those on the minimum wage therefore decreasing inequality

2. Reducing child poverty and deprivation

In the area around reducing childhood poverty and deprivation I believe there is a couple of policy changes would be particularly helpful.

- i. A universal child allowance – probably of at least \$100 per week per child. The cost of this will cost \$5 billion each year but could be compensated for and be compensated (in terms of tax savings) by the abolition of Working for Families. While the \$2.5 billion (i.e. \$5 billion less the \$2.5 billion presently spent on WFF) additional spending might sound a lot it has got to be seen against the estimated \$8 billion cost of child poverty. The Government is already budgeting for increased costs of NZ Superannuation over the next four to five years and somehow we have not heard an outcry about the cost of this. The universal nature of such a payment will reduce the poverty trap as people move from benefits to part-time work or as they earn slightly more in their paid work.
- ii. Universal and free access to ECE for children living in the poorest two or three decile communities. Perhaps with more community based (rather than profit based) ECE centres in low income communities and wrap other family services into these centres – particularly one which support young and perhaps single mothers.
- iii. Setting targets for the reduction of the most severe child poverty

3. Finally housing

Currently we spend on current housing subsidies amount to \$2 billion annually (\$1.35 billion on AS and \$625 million on IRR). There are serious questions about the quality of that spend but there is little wiggle room. Any attempts made in reform are likely to be simply rearranging these budgets and are unlikely to address broader supply side questions.

Additional housing budgets are required simply to build more affordable houses (i.e. houses between \$300K and \$350k). The market by itself is not building these. Auckland is probably short more than 15,000 houses over the past three years. Christchurch is missing around 8,000 houses mainly in lower income suburbs and rough estimates of the number of additional houses required in

rural areas is around 5,000 to 10,000. This requires a far bigger picture approach which sets targets for house builds.

In 2007 in Rebuilding the Kiwi dream the SPPU produced 8 recommendations on home ownership which I believe are still relevant and would deal strongly to inequality

1. The establishment of the New Zealand housing Commission, a small and tightly focused state owned enterprise separate from housing New Zealand and responsible for the management and allocation of funding from the New Zealand housing Fund.
2. The establishment of a New Zealand housing Fund. The Salvation Army recommends a substantial annual allocation (\$500 million - \$1 billion) by Government to this fund for the building of affordable housing and provision of mortgages for affordable houses. This annual allocation is required to insure a long term sustainable supply of funding for affordable housing. Such a long term commitment would also mitigate against any sudden shocks to the economy which the sudden inflow of capital for affordable housing may cause. This fund would be the source of Government funding for all new affordable housing in the community sector, private sector and housing New Zealand. The current policy settings around the Social Housing Fund and Social Housing Unit (eg, \$108 million for period 2012/13 to 2015/16) are likely to produce 500 to 600 houses. This effort needs to be increased at least three fold – to \$100 million per year in supply subsidies. Even with this level of commitment the shortage in affordable housing will simply not get worse.
3. The establishment of a Government funded first home ownership programme which annually provides at least 2000 first home buyers with affordable houses. This programme should involve a range of supply side responses including affordable mortgages, shared equity, more generous provision to KiwiSaver saving for their first home and other options.
4. A more tangible commitment by Government to the development, support and financing of the not-for-profit housing sector and iwi/hapu housing projects. In this commitment we believe it is vital to create a small number of national or regional NGO housing providers which have the capacity to provide significant numbers of affordable houses.
5. A commitment of at least \$1 million annually for the development of iwi and hapu housing plans to address rural housing need of Maori.
6. Legislative change to provide for:
 - requirements under the Resource Management Act for planning agencies to give priority for affordable housing in all regional and district plans
 - powers under the Resource Management Act for Councils to impose inclusionary zoning provisions in district planning policies and rules
 - powers under the Resource Management and local Government Acts for Councils to receive betterment levies where zoning changes enhance land values and for requirements that these levies be used to purchase land for affordable housing within the district or region.
7. That housing New Zealand be given the specific role and resources to begin land banking for affordable housing in high growth areas and that this land be made available for the development of affordable housing by NGO and private sector developers.

8. That the Government move to provide incentives to Government, Community and Private sector housing developers that encourage more mixed tenure housing developments so as to avoid the urban stratification occurring in cities like Auckland.

Three additional areas need attention.

The Warm up New Zealand has been a great success for middle class households but has barely touched younger and poorer households who most often live in poorly insulated private rental accommodation. This programme needs to be rolled out in a more generous way to private landlords with a promise that a housing WOF system will follow and un-insulated houses will not receive AS subsidies within 5 years.

Taxation of capital gains on second and subsequent houses is required in part to reduce excessive investment in residential properties. This tax should be used to support low-income home ownership programmes.

More state or community managed quality social houses in the areas of highest need. What better time to start building them than now.

Conclusion

So to the question can inequality be reduced the answer is yes, but what is sure is it will only happen if we as a society are interested in really doing something about this blight of inequality. That is gaining the political will to address poverty and growing inequality as the most immediate and important task we have.