

TOP MARKET INCOMES

*Symposium on Inequality:
Causes and Consequences*

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What Economy?

New Zealand

Who?

~~Persons only~~ or Natural persons

What?

~~*Wealth or Income*~~

~~*Disposable or Market Incomes*~~

~~*Taxable Income or Private Income*~~

How Far Back? To 1936/7.

Consistent Through Time?

'Fraid not.

What Part of the Income Distribution?

Top incomes only.

Why bother?

2012 Benchmarks

3.5 million adults over the age of 15.

10 percent of adults had incomes above about \$72,500 and a 37.4% share of all income.

1 percent of adults had incomes above about \$165,000 and a 9.7% share of all income

0.1 percent of adults had incomes above about \$500,000 and a 2.7% share of all income.

Annualised average wage was around \$45,000

Average adult income was \$36,000.

The Pareto Coefficient

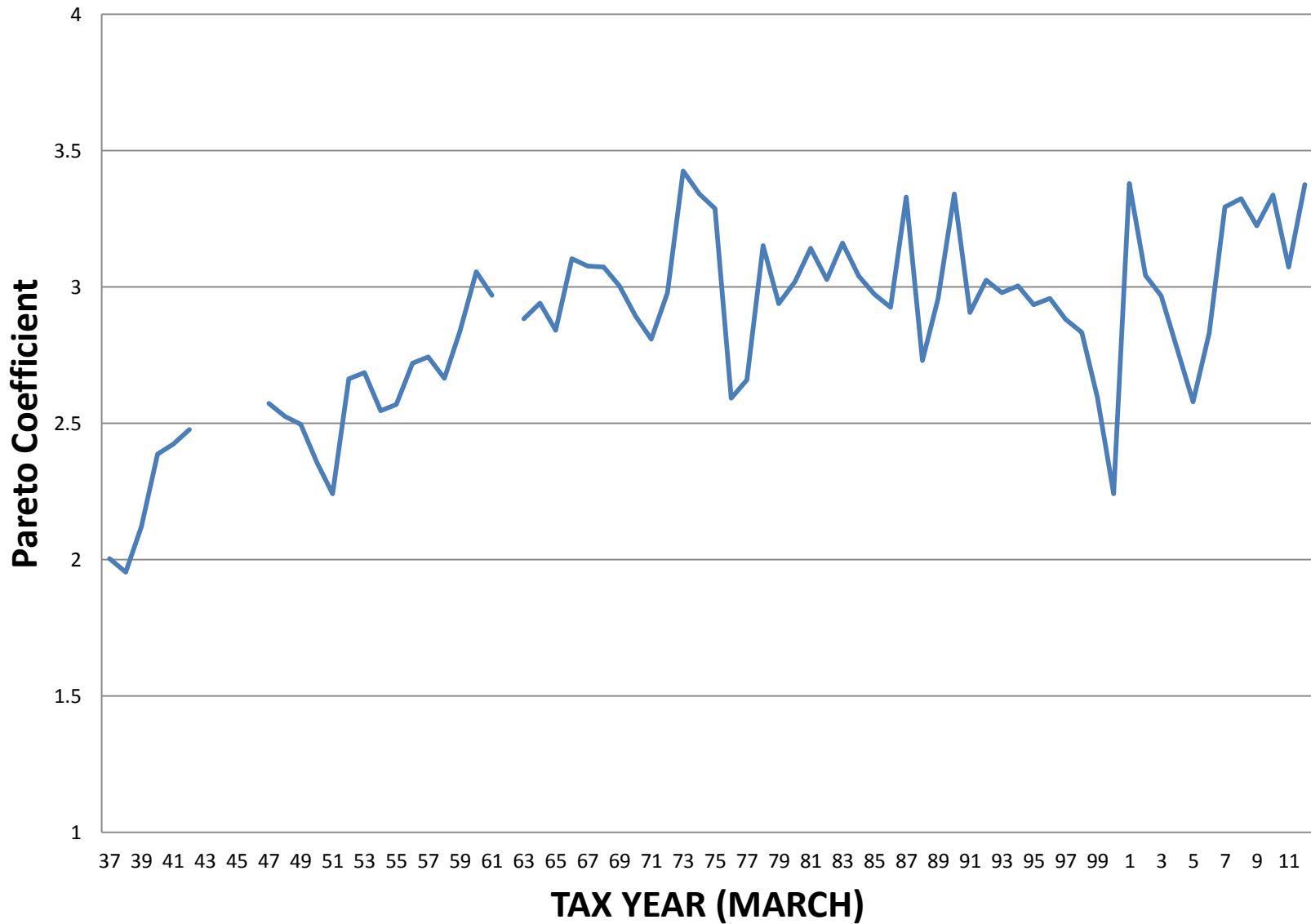
indicates how compressed the top tail of a distribution is. The lower the coefficient the more unequal is it is, the more stretched out.

Pareto coefficients > 1 , typically near 2
New Zealand ones have averaged

If there are 1000 above income $\$X$
250 above $\$2X$ if the coefficient is 2
125 above $\$2X$ if the coefficient is 3

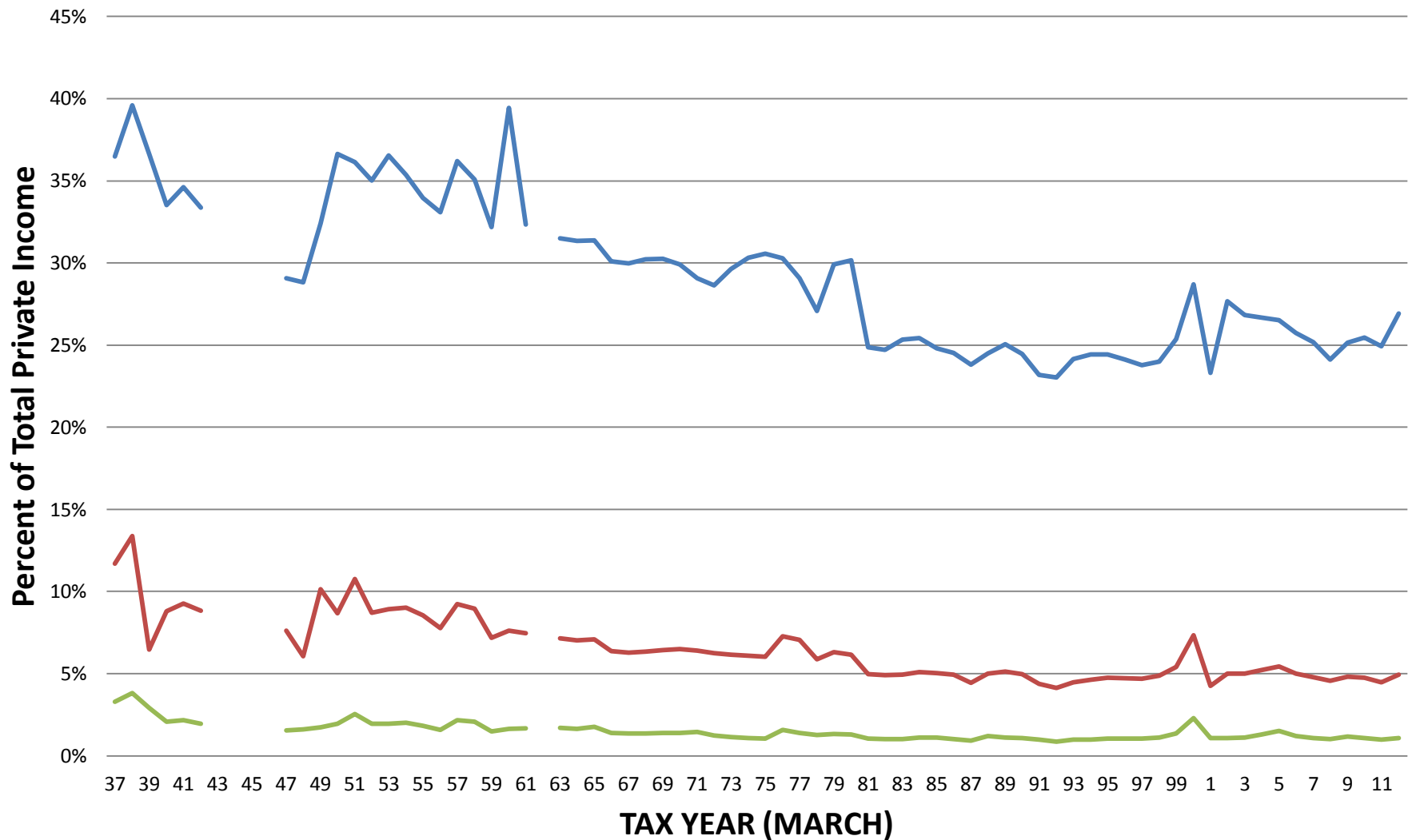
PARETO COEFFICIENT (Tax Reported Top Incomes)

adjust for dividend imputation



SHARES OF TOP INCOMES IN PRIVATE INCOMES

adjust for dividend imputation



— Top 10% — Top 1% — Top 0.1%

Factors reducing Post-War Inequality

- Male labour force participation rose,.
- Female (paid) labour force participation rose dramatically
- Maori migration from the countryside into the urban centres,
- A compression in pay margins within the labour force.

From the 1990s, the post-war pattern of falling inequality ceases

The shares of the top 1% and 0.1% stabilise

The share of the top 10% marginally increases suggesting a slight increase in inequality.

Yet the Pareto coefficient also rises suggesting a slight decrease in inequality

Reconciliation?

Any increase has happened in the 2 to 10 top percentiles

Rewards to managers have risen relative to rewards to labour?

Rewards to capital have not risen?

Compress the top of the income distribution?

What About the Piketty Thesis?

Top 0.1%: 3,500 individuals taxable incomes over \$500,000. Around 700 in excess of \$1,000,000.

New Zealand does not seem to follow the Piketty thesis of rising inequality in top incomes.

New Zealand has no sophisticated financial sector. No data on wealth.

Omissions *Trusts. Capital gains.*

Partial New Zealand Residents

The criteria for being a New Zealand tax resident

- 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.

New Zealand is a small economy

Those with very large fortunes are likely to hold wealth portfolios diversified by jurisdiction.

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

“Pay, patronage and Power” (Disraeli)

Democracy - ‘one person one vote’ versus
Market activity - ‘one dollar one vote’.

Millionaires buy acolytes to reflect their political views.

Political donations?

Some tax non-residents play a significant role in New Zealand political life.

Conclusions

The share of those with top incomes fell up to the 1980s. Top incomes became increasingly compressed.

After there were marginal increases in inequality arising from increases in pay margins for management and professionals.

Calibration difficulties make international comparisons difficult.

There is no evidence of a recent major surge in inequality perhaps because New Zealand's wealthy may function – for some purposes – outside the country.