

Poverty Not Inequality Should Be Our Main Concern

Other things being equal, I prefer less inequality in incomes and wealth rather than more. But I worry much more about poverty and hardship – in New Zealand and in poor countries.

It's easy to explain why. Imagine if all incomes in New Zealand could somehow be quadrupled tomorrow. Most people would see this as a huge advance, especially for the least well off. But inequality would remain unchanged.

Or consider what would happen if Microsoft and all its millionaire employees were to relocate to New Zealand. Income inequality would 'worsen'. But how many New Zealanders would regard that as a bad thing?

A *Sunday Star-Times* article of 23 January 2011 cited *The Spirit Level* by British academics Richard Wilkinson and Kate Pickett. The book attributes almost every social problem to inequality and argues that "equality is better for everyone".

The article failed to note the two key premises of the book: that economic growth doesn't improve social well-being in rich countries, and that it will have to be ended anyway to control carbon emissions. These propositions are controversial, to say the least.

Nor does the article engage with the many criticisms of Wilkinson and Pickett's analysis, such as the book by Christopher Snowdon, *The Spirit Level Delusion: Fact-checking the Left's New Theory of Everything*.

A book *Equity as a Social Goal* by Cathy Buchanan and Peter Hartley, published by the Business Roundtable, concluded that if equity is defined as equal treatment of equals, equality before the law, or a concern for the genuinely needy, then it deserves support in public policies.

If, however, equity is defined as equality of outcomes or material wealth or income, it should be rejected both because it lacks an ethical foundation – ‘levelling down’ can only be motivated by envy – and it cannot be achieved in practice.

Equalising incomes was of course the socialist goal. It was abandoned in countries like China in favour of poverty alleviation (“to grow rich is glorious”, as Deng Xiaoping put it, regardless of whether some rise faster than others). Several former socialist countries have moved to low, essentially flat, income tax regimes.

Raising top tax rates, as some advocated in the article, is no way to achieve any sensible objective. Already in New Zealand the top 10% pay over 40% of personal tax. The bottom 40% pay under 8%. The difference would be accentuated if Working for Families tax credits were taken into account. Higher marginal taxes would stifle investment and growth.

Income inequality (and hardship) rose in the late 1980s as the article noted, but has since flattened out.

A major reason was the unnecessary increase in unemployment due to the rigid labour market. Unions and their supporters resisted the reforms which ultimately led to sharply falling unemployment.

Despite professed concern about inequality, the same groups typically favour things like job protection legislation, higher minimum wages, state monopoly education, and lenient welfare rules. These leave too many people unemployed, unskilled and in poverty.

We should not look favourably on wealth created by special privileges (such as some occupational regulation) or transfers from poorer to richer groups (like excessive subsidies to higher education).

Overall, however, we should recognise that growing the economic pie, rather than redistributing the pieces, is by far the most effective way to alleviate poverty and hardship.

Roger Kerr is the executive director of the New Zealand Business Roundtable. Check out his blog on www.nzbr.org.nz