

The rich get 25 bites of cake

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By JAMES WEIR

The super-rich make about 25 times their proportionate share of incomes in New Zealand, a dramatic increase in the past 20 years, according to an academic study.

But the study of the distribution of top incomes in New Zealand, Australia and Britain also reveals that the extremely rich were even further ahead, relatively, in the 1920s.

The recent rise in top incomes as a share of the national cake still leaves the super-rich relatively worse off than 85 years ago.

The report by Andrew Leigh of Australian National University and Anthony Atkinson of Nuffield College, Oxford, looks at the income share of top-earning groups in the three countries.

It is based on tax statistics from 1921 to 2002.

In the 1920s, British society's top 0.1 per cent enjoyed about 90 times the proportionate share of incomes, the study shows.

In New Zealand and Australia it was about half that. The super-rich had incomes of 40 to 45 times their share.

By the end of the 1970s, the share was down to just 10 to 12 times their share in all three countries.

But the share of the super-rich has risen sharply in the past 20 years, to about 25 times their proportionate share.

That may reflect falling top marginal tax rates in the 1980s and a more global market for executives, as well as rising salaries in many English-speaking countries.

As a result, income inequality rose in the late 1980s and early 1990s, because of bigger overall rises in incomes for the top 20 per cent of the population.

Between 1986 and 1993, the share of the top 10 per cent of people rose from 26.5 per cent to 33 per cent, staying about that level since then.

But that was a rebound after a 60-year period in which the income share of the rich had "mostly been on a downward trajectory", the report says. Top income shares fell in the 1930s and 1940s as the top marginal tax rates rose, peaking at 77 per cent during World War II.

In contrast, cuts in top tax rates in the late 1980s were a factor in the growth in the top income shares. Between 1985 and 1989 the top marginal tax rate was halved to 33 per cent.

Lower tax rates may have encouraged the rich to work more, they may have increased their investment returns, thus boosting the amount they could invest in following years, and they may have induced companies to lift top salaries.

New Zealand's top incomes were also probably affected by the global market for executives. Rising top executive salaries in Australia in the 1980s and 1990s were probably a factor in New Zealand's higher incomes.

In 1900, New Zealanders were richer than citizens of any other country except Britain. However, living standards steadily slipped, especially after World War II, the study says.

Government policies after the war maintained low unemployment, but they did not lead to high economic growth.

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