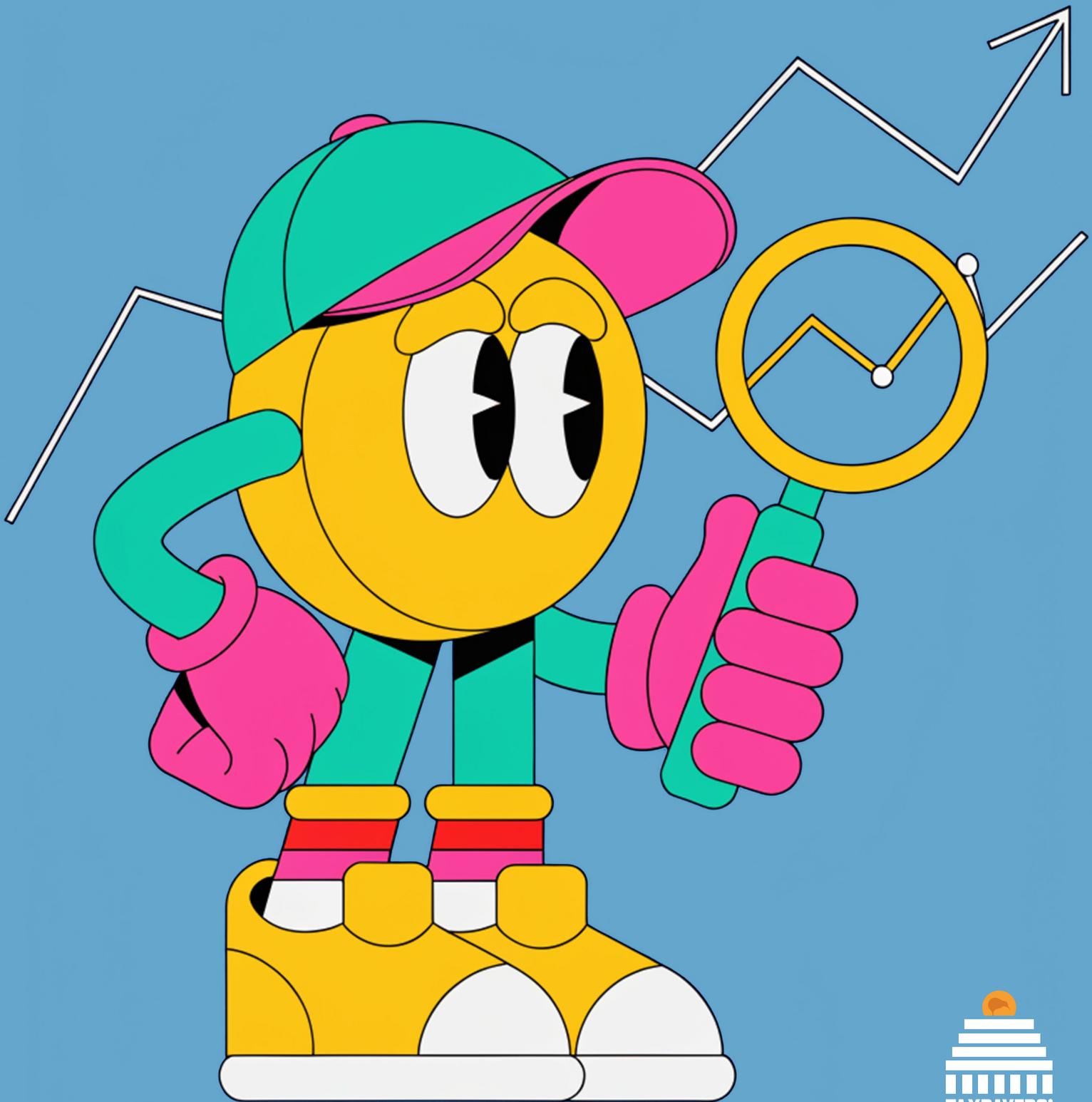
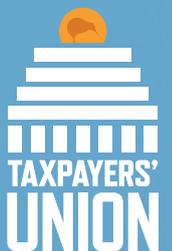


THE MYTH OF RISING INCOME INEQUALITY



MARCH 2026



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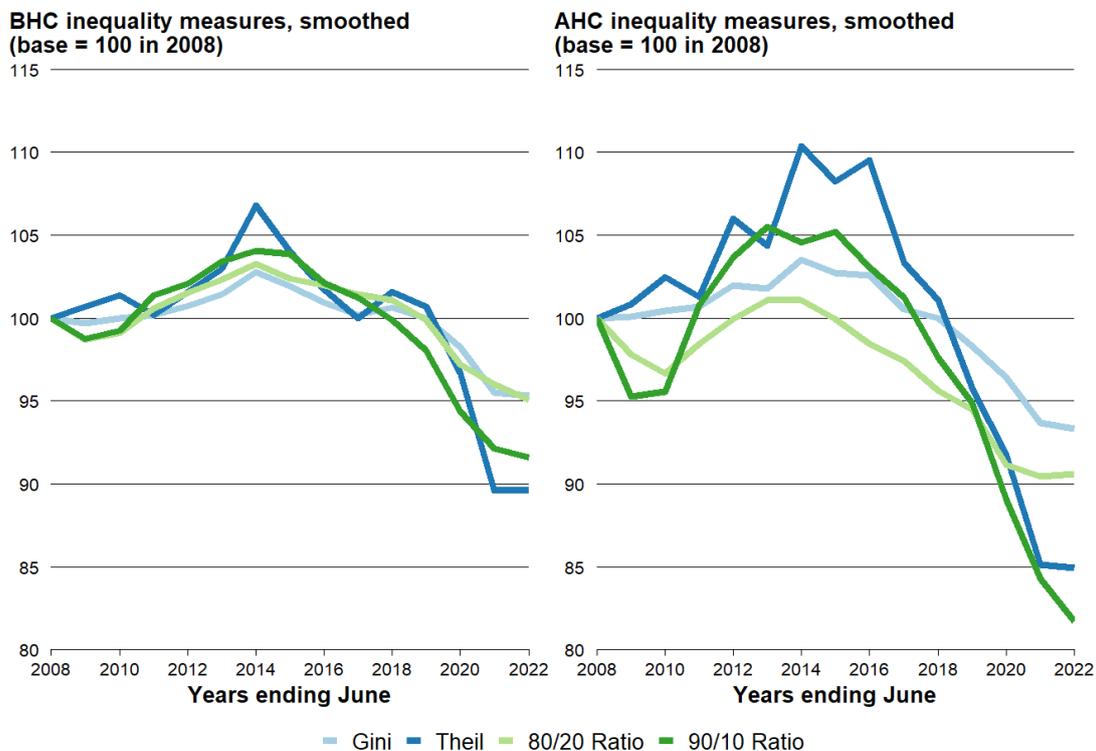
The Green Party wants to raise income tax to 39 percent on income over \$120,000 and 45 percent over \$180,000. The Greens argue this is needed because inequality is getting worse. But are they being honest with voters? Here's what the evidence shows.

Key Finding

Income inequality peaked around 2012–13 and has since fallen to levels lower than 2007. This holds across all four measures: the Gini, the Theil index, the 80/20 ratio and the 90/10 ratio.

Income Inequality: Rise, Peak, and Fall

Treasury's latest analytical note on income inequality looked at changes in New Zealand from 2007 to 2023. It found that over multiple measures inequality rose in the wake of the Global Financial Crisis, until 2013 but then fell, ultimately leaving it lower at the end of the period than at the start.¹ (Treasury Analytical Note 24/10)



Source: (Treasury Analytical Note 24/10)

1 Fergus Cleveland and Meghan Stephens, Exploring Trends in Income Inequality in New Zealand (2007–2023), Treasury Analytical Note 24/10 (Wellington: New Zealand Treasury, December 2024), <https://www.treasury.govt.nz/publications/an/analytical-note-24-10-exploring-trends-income-inequality-new-zealand-2007-2023>.

WHAT DO THESE MEASURES MEAN?

- Gini Coefficient: Compares what share of income each share of the population gets. There is a range from 0 meaning complete equality to 1, meaning complete inequality.
- 90/10 Ratio: How much more a 90th percentile earner earns compared to a 10th percentile.
- 80/20 Ratio: Same idea as the 90/10 ratio but compares the 80th percentile to the 20th percentile.
- Theil Index: Measures how far individual incomes are from the average. Can also show whether inequality is growing within or between groups.

“We find that income inequality increased to approximately 2013, and then declined, with lower inequality at the end of the period than at the start.”

(Treasury Analytical Note 24/10)

The Gini Coefficient, 2007 vs 2023

The Gini coefficient is useful to focus on because it is the most widely used measure of income inequality. It is used by governments, the OECD and the World Bank to compare inequality across countries over time.

Economists calculate it in two ways: Before Housing Costs (BHC), which looks at disposable income; and After Housing Costs (AHC), which strips out rent and mortgage costs, giving a better picture of actual living standards.

| Gini Before Housing Costs | Gini After Housing Costs |
|---------------------------|--------------------------|
| 2007: 0.326 | 2007: 0.39 |
| 2023: 0.316 | 2023: 0.365 |
| ↓ Down 0.010 points | ↓ Down 0.026 points |

(Source: Treasury Analytical Note 24/10)

On both measures, the Gini coefficient fell between 2007 and 2023. The drop is larger after housing costs, suggesting Kiwis at the lower end of the income distribution have seen their relative position improve.

THE LONG VIEW

Researchers at Victoria University took a wider view, exploring trends in income inequality from 1935 to 2014.²

They found that income inequality in New Zealand was fairly steady from the 1960s through to the later 1980s. It then rose during the economic reforms of the late 1980s and early 1990s, peaking around 1994.

After that, inequality largely stopped rising. Apart from a brief bump in 1999, linked to the increase of the top marginal rate from 33 percent to 39 percent in 2000, the overall level of inequality has stayed broadly flat since the mid-1990s.

“In New Zealand, income inequality increased during the late 1980s and early 1990s, with limited change thereafter.”³

The Economic Risks

An increase in income tax would impose the economic costs associated with higher taxes without delivering the intended benefit of addressing a growing inequality problem.

Increasing income tax may even have the reverse effect, increasing income inequality as it did in 1999. Higher marginal tax rates can also reduce economic growth. As the Tax Foundation notes:

“Research almost invariably shows a negative relationship between income tax rates and gross domestic product (GDP).”⁴

This matters because economic growth remains the most reliable pathway to reducing poverty.⁵ As the International Monetary Fund observes:

“An increase in growth is a necessary condition for lifting incomes.”⁶

In other words, policies that support stronger economic growth raise living standards across the income distribution, including for those at the bottom. An increase in income tax is no such policy.

2 John Creedy, Norman Gemmill, and Loc Nguyen, *Income Inequality in New Zealand, 1935–2014*, Working Paper 07/2017 (Wellington: Victoria University of Wellington, July 2017), <https://www.wgtn.ac.nz/sef/research/publications/research-papers/working-papers/2017/working-paper-07-2017>.

3 Ibid

4 Timothy Vermeer, “The Impact of Individual Income Tax Changes on Economic Growth,” *Tax Foundation*, June 14, 2022, <https://taxfoundation.org/research/all/federal/individual-income-tax-changes-economic-growth/>.

5 Valerie Cerra, Ruy Lama, and Norman Loayza, *Links Between Growth, Inequality, and Poverty: A Survey*, IMF Working Paper No. WP/21/68 (Washington, DC: International Monetary Fund, 2021), <https://www.imf.org/en/Publications/WP/Issues/2021/03/12/Links-Between-Growth-Inequality-and-Poverty-A-Survey-50286>.

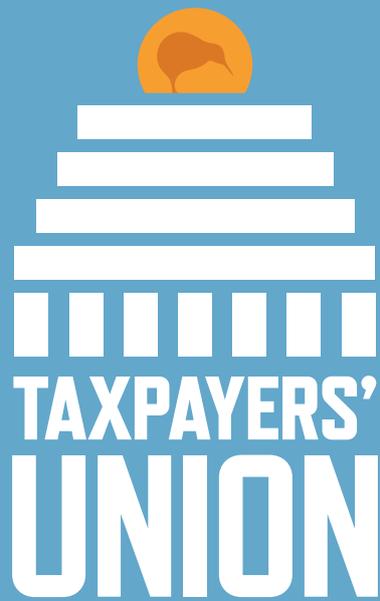
6 Ibid

CONCLUSION

If New Zealand was experiencing runaway income inequality, some may argue that the economic costs of higher income taxes could be justified in order to soften the edges. However, the evidence suggests that income inequality in New Zealand has not been increasing in recent decades. Indeed, income inequality has fallen.

New Zealanders are struggling because of stagnant wage growth, a prolonged per-capita recession, and a cost-of-living crisis. Income inequality is not the cause and higher income tax rates will worsen the real problems. What is needed are pro-growth solutions, not populist tax hikes.





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LEVEL 4, 117 LAMBTON QUAY, WELLINGTON