

INCOME MOBILITY AND INCOME INEQUALITY IN NEW ZEALAND: TRENDS, PATTERNS AND RELATIONSHIPS

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In answering distributional questions that are important for many economic phenomena, researchers and analysts should not solely examine cross-sectional aspects to the neglect of income dynamics and mobility across time. To address this, the paper investigates the patterns and trends of intra-generational taxable income mobility in New Zealand and the interrelationships these have with cross-sectional income inequality. A nineteen year panel of Inland Revenue Department taxpayer microdata is used to examine three aspects of New Zealanders' income mobility and inequality experience: cross-sectional inequality and the relevance of the accounting period; transition matrices quantifying mobility between income deciles; and a regression framework that measures two important components of individuals' income dynamics - regression towards the mean and serial correlation. Overall results suggest significant variation by demographic characteristics with younger individuals and females experiencing more inequality-reducing mobility and more rapid declines in cross sectional inequality measures than the overall sample. Income mobility's implications for inequality in a New Zealand context is an under-researched area and thus it is hoped that this paper can provide a valuable starting point for further analysis.