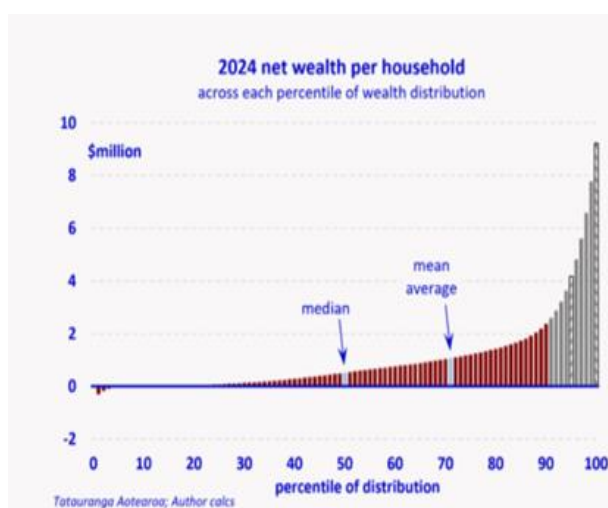


Does distribution matter in macroeconomics?

PIE Commentary 2026-14

Susan St John¹



This graphic provided by Dr Ganesh Ahirao,² depicts New Zealand's highly unequal net wealth distribution in 2024.³ The **top one percent** (around 20,000 households) owns \$183 billion or \$9m each, while at the other extreme end, red bars are below the axis i.e. the poorest have negative wealth, they are in debt.

Total net worth is \$2,067 billion. Of this the **bottom half** (around 1 million households) owned \$138 billion or just 6.7%. The **top half** have \$1,929 billion, a wildly disproportionate share of 93.3%.

Worryingly we are getting even more unequal over time and fast getting more unequal.⁴ Dr Ahirao reports that in the nine years between 2015 and 2024, the lowest 10% (around 200,000 households) **lost** \$6.3bn or \$31,640 per household while the highest 10% (200,000 household) **improved** their net wealth by \$455bn or \$2.3m each.

Rather than any 'trickle down', this alarming widening of the wealth distribution indicates a substantial pulling away of the top from the bottom. While some may prefer to focus reducing poverty while celebrating wealth creation, PIE views the top and the bottom

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² Ganesh Ahirao, economist and former director of the Productivity Commission. See full Substack article for more analysis: <https://ganeshnana.substack.com/p/wealth-divide-makes-way-for-chasm>.

³ The NZ Household Economic Survey data have various limitations that make them less useful to show the full extent of this widening at both the top and bottom end. For example, the survey covers only those with a private residential address and will not capture the extreme poverty of the growing homeless.

⁴ National Business Review (2026), The NBR Rich List: Listers' Wealth Jumps From \$5 Billion To \$129b Over Last 40 Years, 15 June 2026. Note the collective estimated wealth of the 150 individuals and families on the Rich List increased from \$102.1 billion in 2025 to \$129 billion in 2026. In 2026 there are 26 billionaires, up from 18 a year earlier.

inter-connected, with compounding wealth at the top directly linked to the compounding debt, erosion of assets and loss of net worth at the bottom.

Unless consciously addressed, the substantial growth of inequality in the last 9 years will continue with all its adverse implications for achieving an economically efficient and just society. In this PIE commentary Susan St John offers a personal view on what this means in the context of macroeconomic policy.

Does distribution matter in macroeconomics?

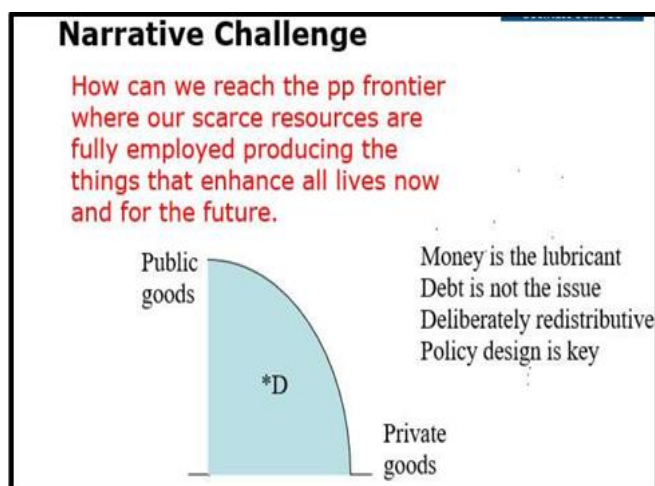
With a background teaching public economics and public policy, I don't understand why distributional issues are rarely talked about in macroeconomics. Distributional equity and economic efficiency⁵ are inextricably connected and co-created with economic activity and government policy. So yes, distribution matters.

Economics is the study of how societies organise the production, distribution and use of goods and services: what is produced, how it is produced, and, **crucially, for whom it is produced**

Chasing more efficient outcomes (e.g. with competition policies) and lower fiscal ratios by cutting government spending (e.g. on critical public goods) while ignoring, or making the distribution worse, is very dangerous; not only for social cohesion but also for the damaging reduction in allocative efficiency in the use of our scarce real resources.

But whose job is it to talk about distribution? I offer these thoughts through the lens of the insightful, but sadly neglected discipline of public economics where principles of equity and efficiency are equally important, and public goods are understood and valued as vitally necessary for the efficient operation of the economy.

What does theory say



When resources of land, labour and capital are fully employed, a simple Production Possibility Frontier (PPF) illustrates that an infinite array of mixes of efficiently produced final goods is possible. If the economy is operating inside the PPF, more goods can be produced with given resources, so being inside, like at point D, (e.g. a recession or depression) is clearly economically inefficient.⁶ This particularly economic way of thinking is valuable because it abstracts from the

question of money and focuses on real resource use.

⁵ Economic efficiency is much more than technical efficiency, it requires the goods that are efficiently produced are the ones buyers actually want.

⁶ Yes, there is a free lunch in economics. Moving from inside to the frontier means there are potentially more goods for everyone.

Once at the frontier, having more of one good has an opportunity cost i.e. the sacrifice is less production of the other. Along the PPF each point is 'Pareto Efficient' i.e. there is no reallocation of resources that can make one person better off without harming another.

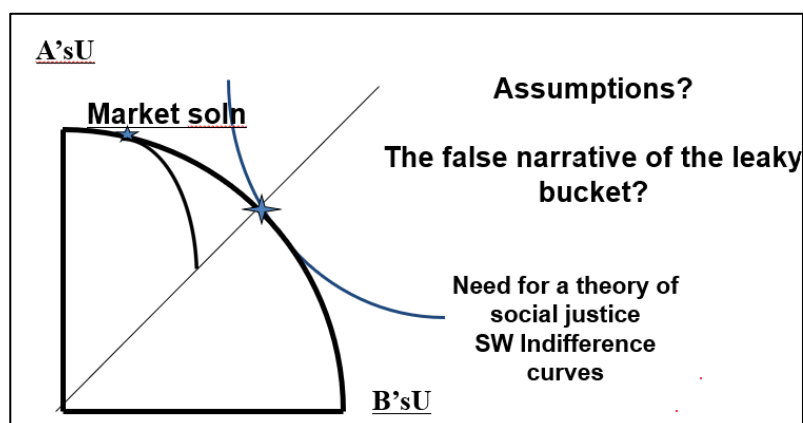
The PPF illustrated has two classes of goods, collective goods or public goods⁷ i.e. taken here as those not sold in markets, and private goods i.e. those sold in markets.

Some examples of public goods are state-funded health, education, social insurance, social housing, transport, environmental protection, creative activities, infrastructure and the legal system.

Which Pareto efficient point is 'best' of all the efficient points on the arc of the PPF? In a market economy the answer depends on who has the spending power i.e. the distribution of income (and power) will determine whose preferences are met.

Suppose the distribution is highly unequal and is at a point close to the private good end of the PPF arc. The preferences of the rich, who depend less on public goods, will favour private goods such as high-end housing, private insurance, high class restaurants, yachts, helicopter pads etc. There is likely to be much poverty and homelessness even if the point is 'Pareto efficient.'

Here is the key insight from this simple model: Change the distribution, more for the poor and less for the rich, and there will be a different mix of goods in the Pareto efficient outcome. Which efficient point on the frontier is 'best' requires having the 'best' distribution.' That is, normative or **value** judgements are required.



Compressing a lot of theory into the next highly simplistic diagram, we assume that A is a rich person and B is poor.

The arc now shows that the possible distributions of 'happiness' or utility (U) between A and B

A Pareto efficient outcome that favours the private goods the rich buy is represented here as the

'market solution' where A has the most utility or happiness.

Suppose society prefers equality: the star is the best place to be, i.e. maximises total happiness.⁸ From the market 'solution' A doesn't have to give up much income to make a big difference to B, i.e. the opportunity cost is low. Any movement down the curve towards equality helps.

Suppose the point of equality is reached between A and B. This 'utopian' distribution implies the 'right' place on the PPF is achieved where there will be more public goods and a better mix of private goods that favour the basics ordinary people need.

⁷ Pure public goods have particular characteristics. For purposes here the term 'public' is used to describe social goods, i.e. the goods and services that are funded indirectly, usually because the 'market' cannot provide adequately if at all.

⁸ Highest possible social indifference curve is reached.

How leaky is the bucket?

But suppose the income can only be transferred from A to B in a leaky bucket. The idea is that taxing the rich incentivises A to work/produce less, while giving to the poor creates an incentive for B also to work less. The economy falls off the frontier as the economy shrinks, long before equality is achieved.

The left and the right disagree vehemently about how leaky this bucket is. For the right it is very leaky indeed and justifies inaction on taxing the wealthy. For the left any leaks are minor, however wider factors are also important such as union power in setting decent wages. Distributional issues are complex. It is no wonder that economists assume either the status quo distribution is OK or that redistribution is someone else's problem.

It is fair to say that distributional analysis in current macro policy is absent. I searched the 2026 PREFU in vain for words like equity, poverty, distribution, hardship, costs or mention of the risks of unemployment, more ill health and social dysfunction. Yes, the budget itself is supposed to report on child poverty, but the 2026 BEFU Child Poverty report fell far short of providing a distributional analysis of why child poverty is growing and how widening inequality should be addressed.⁹

Instead, macro goals have concentrated on the accountant's vision of balancing the books, reducing the role of the state and reducing debt.¹⁰

What is distributional fairness today?

While clearly a free market generates an unequal outcome such as the market solution illustrated on the previous graph, economics does not help us with the normative decisions around distributional fairness. The idea of fairness is values driven and at very least requires both horizontal and vertical equity:

Horizontal equity, or treating equals equally, seems likely to be seen as fair by most people, but it is often contentious in practice. For example, the recent decision to increase social housing rents from 25% of income to 30% of income was justified on horizontal equity grounds. The poor who have social housing must not be treated better than others who are also poor.¹¹

Vertical equity requires a fair sharing of resources among *unequals* and is much more contentious. It is fundamental to whether we get an economic outcome that is not just allocatively efficient but also reflects society's view of fairness.

Vertical equity is not the same thing as equality (although it was depicted as equality in the previous simplistic diagram). It reflects a political philosophy. The current government's implicit narrative on inequality is that the status quo is fair because excessive wealth accumulation at the top reflects the rewards of entrepreneurial effort and hard work.¹²

⁹ [A mini-Hoon with Susan St John on Budget 2026 and child poverty](#), 3rd June 2026. [The Budget 2026 Child Poverty Report with the University of Auckland's Honorary Associate Professor Susan St John: 3rd June, 2026 | 95bFM](#) 3rd June. With Dale Husband [Child Poverty Warning: NZ 'Off Track' as Hardship Bites Deeper – Waatea News: Māori Radio Station](#) 3rd June. St John, S (2026): [What is the real crisis: public debt, or private destitution along with rampant child poverty?](#) Substack 2nd June.

¹⁰ Of Budget 2026 top issues, child poverty does not feature and the top priority is "Return to surplus and reduce debt as a share of GDP".

¹¹ [PIE Commentary 2026-9 Changes needed to AS.pdf](#)

¹² This overlooks of course many other factors such as inherited wealth. Excessive poverty is tolerated because it provides a needed work incentive

How the top and the bottom are interconnected

But what if the accumulation at the top and growing hardship at the bottom of the income and wealth distribution are connected? Rent paid by a struggling household becomes income for a property owner; interest paid by a borrower becomes income for a lender; low minimum wages leave workers struggling while helping to build profits and wealth for owners. The hardship at the bottom sustains the accumulation at the top, at least until the music stops.

The current narrative praises saving which only the well-off can do, while the poor are criticised for borrowing, even as their inadequate incomes force them into debt. Property owners are applauded for accumulating houses while tenants pay them rents that leave no opportunity to save.

Those whose businesses depend on low-paid labour are celebrated for their success, while their workers are trapped by the ideology that says welfare is only for the poor.

Tax and welfare systems based on this narrative deepens this divide. Wealth owners can accumulate millions in untaxed capital gains, while people on low incomes can lose most of each additional dollar earned through tax and the withdrawal of assistance from very low fixed thresholds of income. The vicious effective marginal tax rates of poorly designed punitive overlapping abatements make a lie of the dogma that work is the only route out of poverty.¹³

Whose job is it to monitor distribution

While there are several excellent NGO reports detailing the effects of inequality and poverty,¹⁴ tackling the growing income and wealth divide must become a central task of macroeconomic policy. We need to ask not only how much the economy produces, but who receives the gains, who bears the costs, and how the rules governing wages, housing, credit and taxation connect prosperity at the top with insecurity at the bottom.

New Zealand is regarded well internationally for its transparent accounting for the state, but a strong reporting on the state of the distribution of wealth and income is absent. Each macro-policy should be required to have a full analysis of its distributional impact.

We need a new narrative

Fundamentally we need a new narrative if we are to have a much more optimal allocation of our scarce resources. I suggest it should fall to macroeconomists to provide leadership here by shifting the dialogue from narrow accounting measures to the real economy and the distribution of wealth and income.¹⁵

We need a new narrative

"The budget deficits of recent years are a result of our weak economy, not the other way around. ...That is why investing in decreasing inequality and increasing equality of opportunity makes sense not only for our economy, but also for our budget.

Economic weaknesses will lead to cutbacks in public investments—including those that help ameliorate inequality—and we reinforce the vicious circle upon which we have embarked...." **Joseph Stiglitz**

¹³ St John, S (2026) [Giving a lie to the claim 'work is the way out of poverty' in a flawed system](#) NZ Herald 27th August.

¹⁴ For example, MSD Bryan Perry, annual reports on child poverty. Also many NGOS reporting for example on deteriorating child health- see [2026 Cure Kids State of Child health in Aotearoa New Zealand](#)

¹⁵ St John, S (2026): [What is the real crisis: public debt, or private destitution along with rampant child poverty?](#) Substack 2nd June.

We are well inside the PP Frontier described earlier, and recent macro policy to address the deficit by cutting the government sector is poor economic policy: the resulting unemployment constrains our potential and ironically makes the deficit worse, while the emphasis on private goods for the really wealthy diverts our scarce resources into luxury conspicuous consumption.¹⁶

Macro policy must lean against the characterisation of public goods as 'bad' because they increase the size of the state, while private goods are 'good' because they are not paid for out of taxes.

Public goods have enormous potential to affect the overall distribution and to greatly enhance the living standards of all. Their chief characteristic is that left to the private sector we would get very few of them. And there would be little to cushion downturns when confidence and investment shrinks.

A further insight from public economics¹⁷ is that as technology makes private goods far less labour intensive to produce, the excess labour could potentially be diverted to labour intensive, highly valuable public good production. This is what an ageing population, environmental degradation, natural disasters and a society with much ill health and poverty is crying out for. The task is to explain this to taxpayers as the silver lining to the AI displacement of labour: society will have to pay more tax, ie give up more of their spending on private goods.

Macroeconomists could start the ball rolling. They might seek to wean government off the obsession with fiscal ratios and harmful cuts, adopt a simple normative goal such as 'reducing inequality' and explain clearly why it matters not just for fairness but also for a healthy, well-functioning and efficient economy.

¹⁶ Joseph E. Stiglitz, "Inequality in America: A Policy Agenda for a Stronger Future," published in January 2015, in *The Annals of the American Academy of Political and Social Science*, volume 657, pp. 8–20

¹⁷ Referred to as Baumol's cost disease. The argument is that labour-intensive services face rising relative costs because their wages must keep pace with sectors where productivity grows faster, even though they cannot achieve comparable productivity gains. The silver lining is that spare labour resources could be and should be diverted to increase public goods.