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TOWARDS A FAIRER WEALTH DISTRIBUTION IN N.Z.

I have just returned from an extended overseas trip to find that the deadline for submissions on the *Future of Tax* is today, Monday 30 April. Unfortunately I have been left with insufficient time to make a polished presentation. Rather all I have been able to do is draw out an opinion paper I prepared before the 2017 election for publication in the NZ Herald that was rejected, according to the Editor, because it was too long. It was entitled *Towards a Fairer Wealth Distribution in NZ.* However, because it was primarily about reforming the existing taxation system to provide more take home pay to low salary earners I think it is still basically relevant to the Working Group's request for contributions. I have therefore done a quick reshaping of it so that the ideas I was promoting then are presented within this submission. As far as I can ascertain the only thing that has changed since its original preparation is a new government with different attitudes towards poverty and wealth polarization in NZ than the successive National led governments of Key and English had when in power. I welcome very much this new attitude and the opportunity to make suggestions to the Tax Working Group (TWG). So here we go!

The year 2016 was one for surprises, none more so than Britain voting to leave the European Union and America voting a billionaire political fledgling into the Presidency for the next four years. Such outcomes were interpreted by expert analysts as evidence of distrust in career politicians and/or political parties to do anything to improve the lot of an ever, increasing lower income class of disenchanted voters.

Irrespective of these startling events, there has been no interruption in the growing polarisation of wealth within most Western democracies. Governing political groups ignore it, partly because the dispossessed have no organized group to voice their plight, but also because the opposition parties are either bereft of ideas on how to attack the matter or if they have ideas are scared of voicing them for fear of losing electoral favour. So as an issue, vast national wealth disparity tends to sit in the same basket as climate change – on the back burner. Present inaction is alarming and cannot continue forever unless we are prepared to accept social breakdown and with it a loss of respect for law and order. The tell tale signs are starting to emerge – growing homelessness, people living in cars and growing food queues at welfare agencies, that resemble refugee camps within an otherwise land of plenty that New Zealand really is. A major challenge to democratic free enterprise countries like New Zealand and near neighbor Australia, is whether the growing disparity of wealth within its citizenry can be alleviated via democratic means rather than revolutionary means. With both the Brexit and Trumpery phenomena, a significant chunk of the lower income electorate ('rural white' in the case of America) voted for change at any cost even to the point of possibly maiming itself further by doing so. Time will tell if an even bleaker situation awaits the disenchanted of both countries under their new regimes.

Late in 2016 I read a NZ Herald article reporting a statistical survey on credit ratings. It 'informed' us that "the older you are, the better your credit rating". Unsurprisingly, it listed the high scoring factors for credit rating enabling you to get loans at lower interest rates as people having doctorates, being married, having three children and being professionals. The low scoring factors were people that were renters, regular smokers, had six or more children and were machine operators or drivers. This hardly requires rocket science to understand. Another article I read within short time of this one was the summary of a report entitled: 'Child Abuse and Family Structure'. Its statistics sung the virtues of the married state, revealing (amongst other things) that "the risk of abuse for children whose parent/caregiver had spent more than 80% of the last 5 years on a benefit was 38 times greater than those with no benefit history." It further noted that most children associated with benefit history had a single parent/caregiver. Once again this hardly requires rocket science to understand. In both cases, despite their disparate nature, what separates the best from the worst is the stark difference in economic condition. The managerial or ethical deficiencies are as much symptoms as they are causes. People get into poverty traps and/or lose moral direction out of hopelessness, self inflicted or otherwise. Poverty is minimized in societies that have enlightened socio-economic governance, but widespread in countries that turn a blind eye to it. Furthermore, it is much easier to claim the moral high ground when you are well fed, well sheltered and enjoy family unity because of your superior socio-economic status. The Auckland Mission reported in December 2016 that up to 300 families per day were visiting its Hobson Street Drop in Centre for emergency food handouts. Other welfare agencies report similar, ongoing experiences today. In a land of plenty like New Zealand that is shameful. Also shameful is the way some newspaper correspondents maintain that poverty in Auckland is nowhere as bad as welfare agencies claim. Worse still some blame the beneficiaries themselves for the failures of a wage structure that militates against their survival without assistant benefits. These correspondents should pay a visit to the Hobson Street Drop in Centre in Auckland and observe before opening their mouths.

The current political approaches to dealing with the growing band of dispossessed in New Zealand are demonstrably ineffective. More to the point it doesn't seem to matter which party you support for those that vote ethically, as none of the major parties seem willing to shift far enough either side of the status quo to properly address the matter. In so doing they end up treating the symptoms rather than the causes. Thankfully the new Adhern led coalition government has been responsive in setting up the TWG encouraging comment on how the taxation system can work in a fairer way for all New Zealanders, not just those in the upper wealth echelons. A skillfully devised new taxation system can help bridge the divide between the haves and have-nots, which brings me to the substance of my submission.

Greed, a word that the secular world seems to have abolished from its lexicon as one of the seven deadly sins, is obviously one of the causes for the galloping rich-poor divide. But that is a matter for personal morality that cannot be treated politically. The other is ubiquitous, concealed in our current taxation system. A system that served the nation well in the good old days of the 1950s to the early 1980s in New Zealand where taxpayers were taxed on their earnings only, no longer works to provide the relative poverty free days New Zealand then enjoyed. Why?

A lot of the blame rests with Rogernomics that ushered in a 10% GST tax on 1 October 1986 with a raft of income tax cuts to compensate for its immediate impact. GST was a panacea for all our woes; everyone would get richer from the trickle down effect of the income tax cuts. But as lower income workers soon discovered, it did nothing to help them as it applies to everything purchased, including life’s essentials like food and clothing. On the other hand it proved to be a wonderful cash cow for government revenue. It was increased first to 12.5% on 1 July 1989 and then racked up a further 2.5% to its current level of 15% on 1 Oct 2010. The official IRD justification for the latest increase in 2010 was:

“New Zealand relies heavily on income taxes in order to fund expenditure. Income taxes may, however, be harmful for efficiency and growth. Taxes on consumption, such as GST, tend to be less harmful to growth as, unlike income taxes, they do not apply to savings and, therefore, do not discourage this activity. A switch from income tax towards GST can, therefore, boost incentives to save and encourage economic growth.”

Rogernomics has been a windfall for the wealthy, a disaster for low-income earners with its trickle up effect. And it has presided during a period of an unprecedented widening of the wealth gap in New Zealand. However, a new unacknowledged effect on low-income earners has been the way in which money has become ‘commoditized’. It is now the new God of the secular world, ‘the opium of the people’ as Karl Marx once said unkindly of religion. It is almost as significant a commodity as the food we eat and the air we breathe, despite the fact we can neither eat it nor breathe it! So dramatic has been this change that those in their mid thirties today have no experience of its altered status because they have not lived in a time prior to its commoditization.

Money was invented to serve two purposes: to reward labour and to provide for the orderly exchange of goods and services between people engaging in commerce – buying and selling. This was the role it primarily played up to the end of say the 1970s. But in more recent decades it has become something bankers and brokers can package and sell off as 'money products' that have no use but carry cash value. Financial products can be traded on the share markets with bankers, brokers and wealthy clients cleaning up big time. And accompanying this has been an exponential escalation in the salaries of CEOs and senior executives of banks, companies and corporations as they delivered rapid gains in capital to clients and stockholders with capital to invest in stocks or money products, dubious or otherwise. Days when the bosses earned three to five times the hourly rate of their employees that septuagenarians can recall are unknown today yet government still taxes primarily on income.

The massive changes that have taken place in wealth division in free enterprise countries have tracked alongside this new fluid nature that money has assumed. Now those at the top of the salary pyramid in corporations, banks and companies like the CEO of a large company receive hundreds of times the salary their employees at the bottom of the salary pyramid do. They also receive sizeable annual bonuses (affordable to fund because there are far fewer executives than there are low income employees) from having delivered favourable dividend rates to their stockholders. In some cases these bonuses would provide an annual income sufficient to shelter, feed and clothe a family on hard times that queues at welfare centres in need of assistance. The stockholders are happy, the executives are happy, meanwhile an increasing number of people are lining up at our welfare agencies in need of assistance to exist. Furthermore, money can be cleverly moved around under tax exemption schemes, all legitimate, and maximized in amount exempted by shrewd company and taxation accountants and lawyers. These exemptions are effectively unavailable to the rank and file of people like machine operators, mechanics, drivers, etc. that have little if any income left over to 'invest' in anything other than a lotto ticket that cannot be claimed as a tax deduction when it loses. The result is that the disposable incomes of those at the top of the wealth pyramid is now greater, probably thousands of times greater, than those at the base of the pyramid. It is true that those at the top of the pyramid may work longer hours per day, possibly even twice as many hours (say 16 hours) than those at the base (say 8 hours). This is not surprising as their work is stimulating, rather than mundane, like that of a machine operator. But this difference in hours worked is disproportionate to the factors like hundreds or thousands that separate those at the top and bottom of the salary pyramid in terms of disposable income. It's a perfect recipe for wealth polarization and has worked assiduously if silently over the past few decades in New Zealand and other similar countries to result in the rich getting richer and the poor, poorer.

The real estate market is another symptom of a distorted national wealth distribution. It is governed by market forces with people competing at auction to obtain the best property they can in terms of location and improved value permitted by their after tax income advantage. This competition drives up costs at all levels available in the property market and if the supply doesn't meet the demand (as happens in cities like Auckland) then values rise at rates that were unthinkable back in the 1970s. For example, my three bedroomed house on the southern slopes of Remuera was worth 3 times my salary in 1971 when I arrived in Auckland as a 30 year old university lecturer from Vancouver. If I arrived here today as a 30 year old university lecturer from Vancouver and tried to buy a three bedroomed place of similar standard to the bungalow I purchased in the same street as I did in 1971, I would now have to pay about 15 times a current university lecturer's salary. What hope is there of home ownership for even young professionals to be had in another decade if things continue on the same wealth gap trajectory we are on? As home ownership slips from the grasp of even young professionals into whose hands does it fall? Wealthy investors, either home grown or foreign buyers seeking to divest themselves of wealth in their own countries swallow it up. And with it the wealth distribution continues to flow further into the hands of the already wealthy segment of citizenry.

So what to do? If New Zealand doesn't want to continue down this path of increasing wealth polarisation, a major reform of the present taxation system is necessary to ensure people at the lower end of the salary chain earn enough on which to survive without welfare benefits that never solve the problem. Either radical change to existing income taxation schemes or some form of a capital gains tax that claws back from the already wealthy to distribute equitably amongst low income earners in their take home pay is needed. Gareth Morgan's attempt to remedy the problem via a Comprehensive Capital Income Tax (CCIT) scheme is worthy of consideration for this reason alone. I am not qualified like Treasury is to evaluate it but I am pleased to see it being advanced in the absence of anything else by the major opposition parties. However, I am familiar with numbers and can comment on adjusting the existing income tax scale. A simple transition towards the existing Australian tax regime, inter alia, that has a threshold income level of $18,200 before taxation would help lower level income earners.

An interesting ANZAC comparison bracket to look at is the $0 – $30,000 group, including the intermediate rate transition points at $14,000 (NZ) and $18,200 (AUS). This is what it looks like:

Taxable Income	NZ Tax Payable	AUS Tax Payable
0 - $14,000	0 – $1,470	0
$14,001 - $18,200	$1,470 – $2,202	0
$18,201 – $30,000	$2,202 – $4,270	0 – $2,242

The crossover point in salary where the nominal tax payable is the same, namely $10,696, is $58,920. After that we have:

Taxable Income	NZ Tax Payable	AUS Tax Payable
$70,000	$14,020	$14,297
$100,000	$24,550	$24,297
$180,000	$50,980	$54,547
$300,000	$90,580	$108,547

Even after any fine-tuning to account for (minor) differences in exchange rates and the distribution of income groupings, the ineluctable fact is that lower income earners are far better off in Australia than they are in NZ under its tax regime. What's more the higher income earners (the "rich dudes" as Gareth Morgan euphemistically refers to himself) in Australia are paying a higher brunt of tax on taxable income than the privileged in NZ. So when the claim is made that higher taxes on the high income (entrepreneurial?) earners drives them out of the country, why have they not fled from Australia to NZ where the tax rates are lower? It is a hollow threat that doesn't hold up to anyone but the beneficiaries of the status quo. So altering the NZ tax regime along Australian lines is the best quick fix that comes to mind for the present government.

Because it is hard to imagine business reining in the salary structure pyramid that currently exists or a modern government stepping in and regulating it by flattening it out, other measures along the lines of a capital gains tax need to be explored for long-term change. We already subscribe to a form of capital gains tax when we pay our rates. The rating system is based on property values (unimproved land plus improvements to the property(s) we hold title to) and is accepted by ratepayers as fair for local body government. If we do shift in that direction then Henry George, a forgotten but otherwise brilliant American economist and social philosopher of the late 19th century has provided a template for doing so using a single 'location' tax where we are taxed on the value of the unimproved land we hold title to in his monumental treatise called *"Progress and Poverty".* This brilliant analysis of land, labour and capital was republished in 2006 by visionary humanists concerned about the future of unregulated capitalism. Even Donald Trump could not escape his social responsibility of paying tax to the government coffers under this system.

George, a free enterprise (not Marxist) economist, who sort to use the efficiencies and wealth the free market produces in concert with the noble human aspirations that provide for social justice has been hailed one of the greatest thinkers of the 19th century by intellectual titans like Leo Tolstoy and Albert Einstein. The latter two may not have been economists (although one of them was a genius when it came to working with numbers) but they were great humanitarians that tower in their contributions and compassion for humankind compared to modern financial ‘prophets’ (or spelt ‘profits’ in their case?) like Milton Friedman and Alan Greenspan.

Those that care about the future kind of New Zealand they want for their children and their children’s children should question the vast, existing wealth gap sooner rather than later. If what they want is one of Darwinian socialism where the strong and the wanted are advantaged to produce billionaires like Donald Trump that pay no income tax on their 3.1 billion dollar empires; and the weak and unwanted are relegated to welfare benefit queues, then they should vote for more of the old Douglas-Key-English rubric as it is designed to retain the status quo. On the other hand if what they want is a society in which everyone that has left school pays a just share of tax based on an indicator of their wealth (like for instance land they hold title to) that leads to a narrower wealth distribution to that which presently exists, and consigns poverty levels and welfare queues back to their 1960s levels when they were virtually unheard of, then they should vote for properly researched taxation changes that will get them there. The government recently formed seems dedicated to the ideals of the latter viewpoint in setting up the TWG. I sincerely hope it can deliver on fundamental changes to our tax system that results in greater socio-economic egalitarianism.

As a final note added today (the deadline for submissions day) I apologise for the drift of comment away from the theme of tax at times but I would rather get a potentially disjointed submission in by deadline than make no submission at all.

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