

# ALTERNATIVE AOTEAROA

SATURDAY 25 JULY

PIPITEA MARAE  
WELLINGTON

FOR THOSE  
WHO CANNOT  
MAKE IT THE  
SEMINAR  
WILL BE  
LIVESTREAMED

A **ONE-DAY SEMINAR** FOR THE ENVIRONMENTAL, SOCIAL AND  
ECONOMIC **TRANSFORMATION OF AOTEAROA**

## Economic Solutions?

Susan St John

Director, Retirement Policy and Research Centre

Economics spokesperson for CPAG

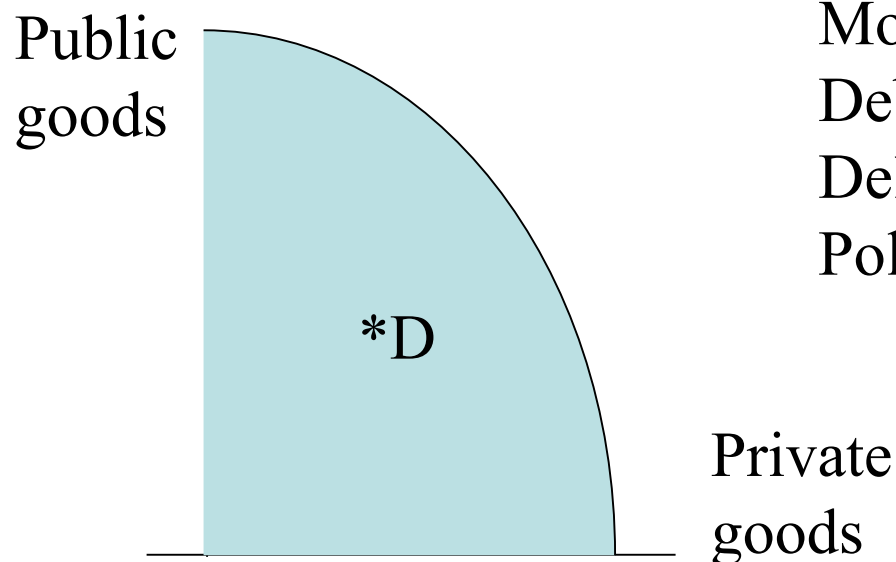


# Well-being and sustainability to be at the heart of policies

- Govt must stop making policy behind closed doors/competitive electioneering/ignoring working groups reports.
- The left must do better than just critiquing policy by Twitter/newsroom/blogs and comments.
- Stop the sound bite soft fuzzies
  - All we need is UBI
  - All we need is a universal Family Benefit
  - Get rid of GST
  - The NZ super fund guarantees retirement incomes
  - Social insurance is the answer

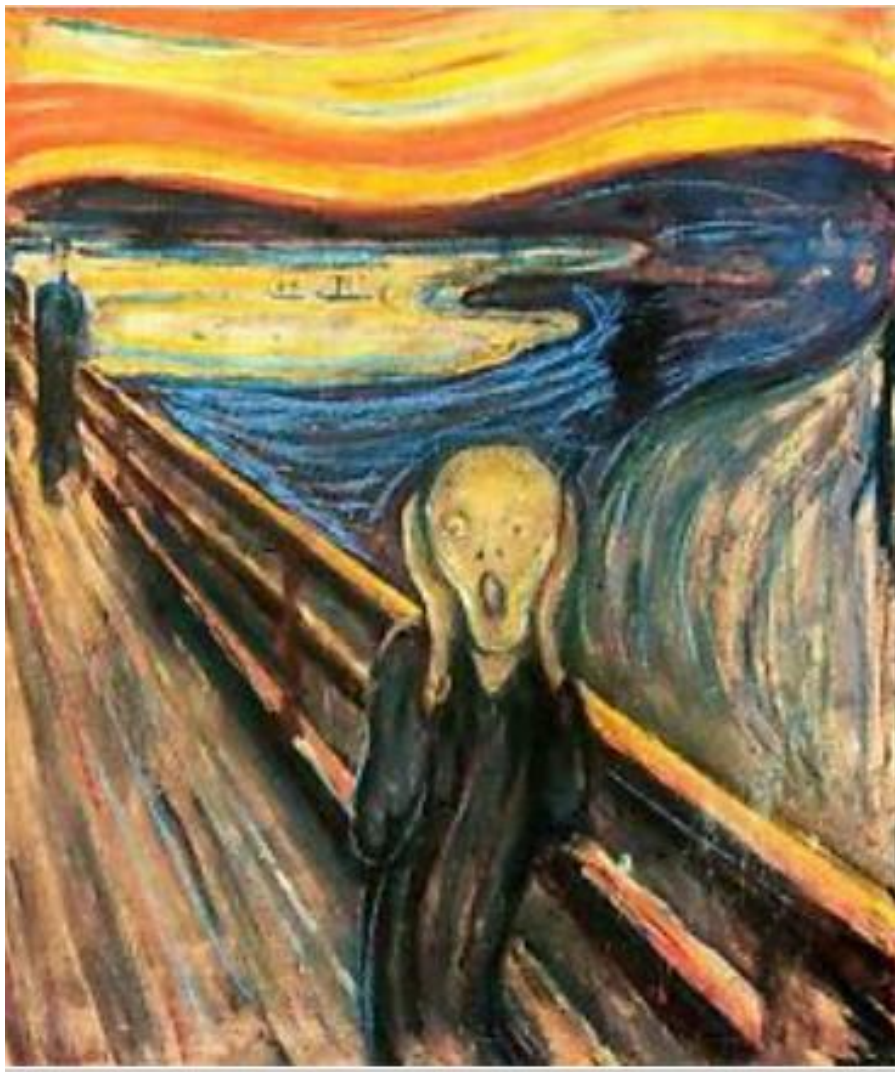
# Narrative Challenge

How can we reach the pp frontier where our scarce resources are fully employed producing the things that enhance all lives now and for the future.



Money is the lubricant  
Debt is not the issue  
Deliberately redistributive  
Policy design is key

# Lets **STOP** scaring ourselves silly by the debt we are leaving our children!



Public debt is

- Denominated in \$NZ
- Someone owns the debt
- Net debt to overseas matters
- We need to measure it properly

## Government spending and fiscal outlook

Forecasts in red, actuals in black

June Year	2018	2019	2020	2021	2022	2023	2024
	\$m						
Core Crown Expenses	80,576	87,041	113,998	113,529	119,767	118,638	113,025
Core Crown Revenue	86,778	93,474	89,474	87,023	94,615	104,015	109,920
OBEGAL	5,534	7,370	-28,293	-29,599	-27,199	-16,454	-4,935
Operating Balance	8,396	329	-37,115	-29,326	-24,232	-13,009	-1,036
Net capital spending <sup>4</sup>	5,400	5,700	8,800	12,900	8,600	8,900	8,300
Net debt (incl NZSF)	19,460	14,060	47,598	82,764	111,699	131,688	138,220
Net debt (excl NZSF)	57,495	57,736	88,935	129,489	163,599	188,718	200,780
	Percent of GDP						
Core Crown Expenses	27.5	28.7	38.7	38.6	36.5	33.7	30.2
Core Crown Revenue	29.6	30.8	30.4	29.6	28.8	29.5	29.4
OBEGAL	1.9	2.4	-9.6	-10.1	-8.3	-4.7	-1.3
Operating Balance	2.9	0.1	-12.6	-10	-7.4	-3.7	-0.3
Net debt (incl NZSF)	6.6	4.6	16.2	28.1	34.0	37.4	36.9
Net debt (excl NZSF)	19.6	19.0	30.2	44.0	49.8	53.6	53.6

NZSF = New Zealand Superannuation Fund

Budget, 2020

We must included the assets in the NZ Super Fund

# A prime objective must be to stop the inevitable surge in inequality and poverty

- Covid-19 is intensifying the divide
- Low income groups have already paid a high price
- Policies must be carefully designed to ***amplify*** redistribution, not reinforce inequality
  - Winter Energy Payment falls far short
  - Working for Families fails by excluding the worst off children from the full package
  - Deserving poor-COVID Income Relief Payment
  - NZ Super and NZ Super fund issues

# Housing is a fundamental consideration

- Misallocated scarce resources
  - LEAKING BUILDINGS
  - Luxury mansions
  - Poorly functioning rental sector
  - Overcrowding and homelessness
- The big inequality elephant in the room?
  - Surprise, surprise, it is housing
  - Housing is a tax favoured tradeable commodity
- So lets fix taxation of housing

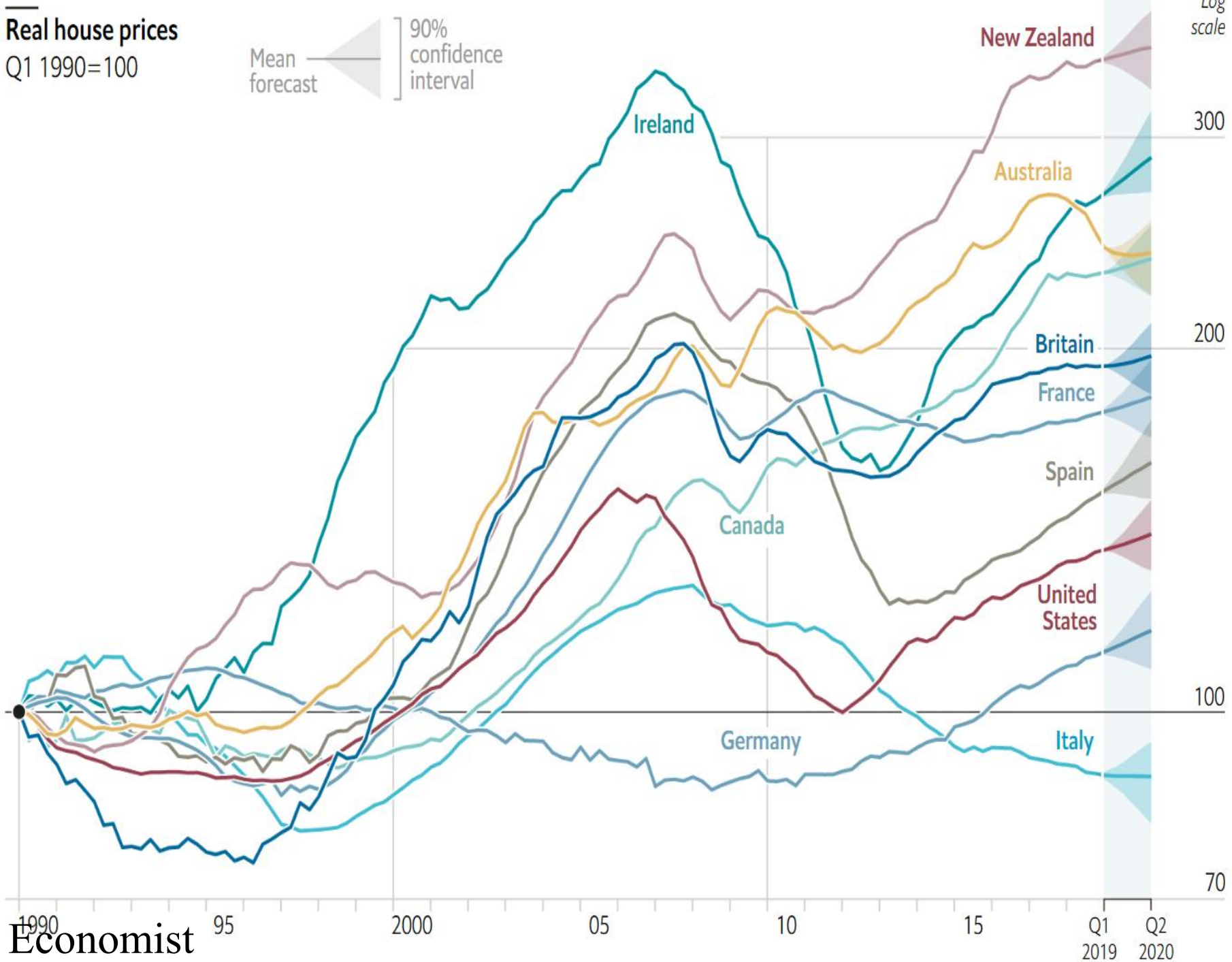
# Real house prices

Q1 1990=100

Mean  
forecast

90%  
confidence  
interval

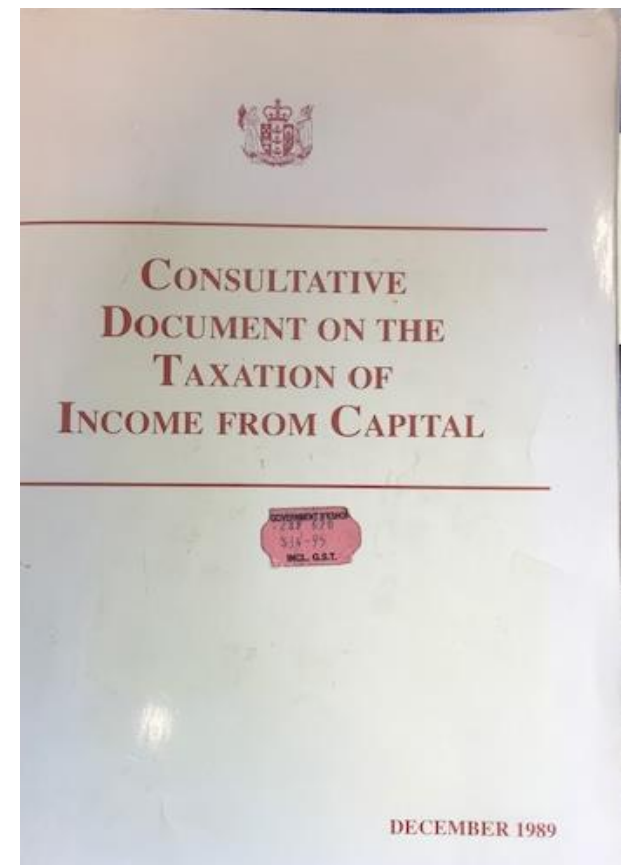
Log  
scale





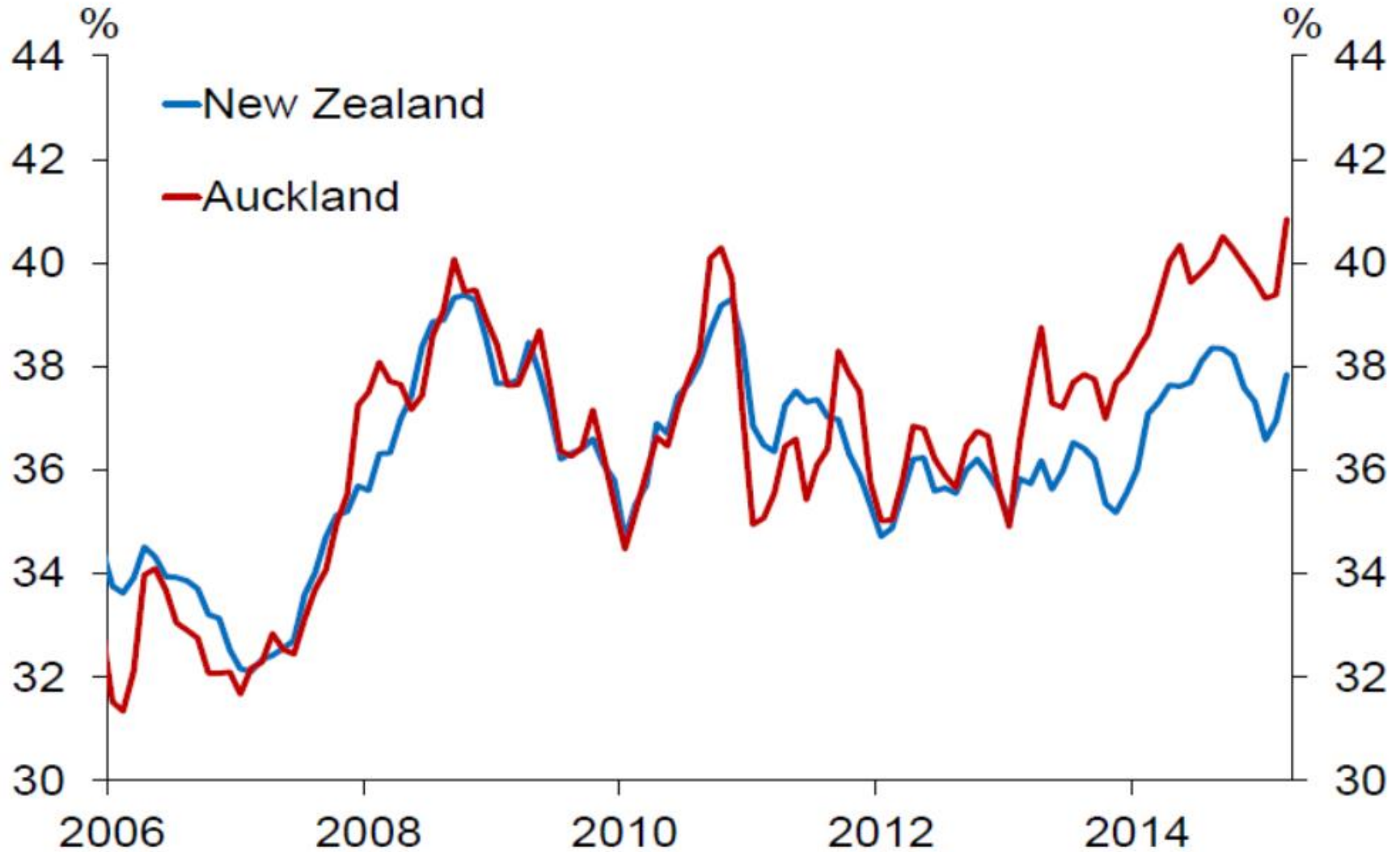
# Déjà vu

- 1967 Ross Committee
- 1982 McCaw Committee
- 1987 Brash Consultative Committee Accrual Tax
- 1988 Valabh Consultative Committee International Tax Reform
- 1989 Report of the Consultative Committee  
Income from Capital
  - Abandoned 20th March 1990 by David Caygill
- 1988 Royal Commission Social Policy
- 1988 Brash Committee Superannuation
- 1988 Brash Committee Life insurance
- 2001 McLeod Tax Review
- 2010 Tax working group report
- 2019 TWG report?



- Housing has been undertaxed for decades. Still the favoured way to save for retirement. The left must stop fluffing around on this one and stop coming up with utopian solutions such as a comprehensive capital gains tax– or a comprehensive net wealth tax.
- How is housing under taxed?– not just Capital Gains– also the imputed rental income.

Figure A1: Investor house sales share by region



Source: CoreLogic NZ.

<https://www.rbnz.govt.nz/financial-stability/financial-stability-report/fsr2015-05/investors-and-the-new-zealand-housing-market>

Note: Investor house sales refers to purchases made by buyers owning multiple properties.

“Increasingly, residential property is looking like a good place to put your money. Housing demand still outstrips supply and sale prices continue to defy any doom and gloom. While rents in some areas will no doubt soften, **the returns remain way better than bank interest and of course solid capital gain will always be delivered in the medium to long term.**” [‘Mum and Dad’ investors return to property market](#) 24 June 2020

“According to [CoreLogic’s latest buyer classification analysis](#), 18<sup>th</sup> July, the share of purchases by investors or “multiple property owners” is on a gradual rise.

Across all investor purchases (both cash and mortgage), their market share in the second quarter of 2019 was 37%”.

# If not capital gains tax then what?

RFRM or net equity approach is superior if meaningful reduction in housing inequality is to be achieved

All housing wealth (CVs) aggregated and registered first mortgages deducted

**Net equity** treated as if on term deposit earning 3%

# Net equity tax would

- Retain current bright line tests for short term gains
- Affect the top 20% of wealthiest property owners and absentee owners
  - May have an individual exemption on a family home of up to \$1 m
- Do away with the need for landlords to feed tax accountants
  - No rental losses
  - No interest write offs
  - Capture capital gain in the equity base
  - Divert resources from luxury housing
  - Change the culture of housing as an investment commodity-better use of housing stock

# Income protection

- We all like the idea of an unconditional floor of income below which we cannot fall
- Do we do this for the old?
- Do we do this for children?
- Can we do better for working age adults?