

**Susan St John**

**Nga Mihi O Te Ra**

**Economic solutions**

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

SATURDAY 25 JULY  
PIPI TEA MARAE  
WELLINGTON  
FOR THOSE WHO CANNOT MAKE IT THE SEMINAR WILL BE LIVESTREAMED

Economic Solutions?

Susan St John  
Director, Retirement Policy and Research Centre  
Economics spokesperson for CPAG

CHILD POVERTY ACTION GROUP  
THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

It is an honour to be here. As the 33rd speaker I am at the end of a very long day with just 10 minutes for economic solutions.

In reviewing my overheads I thought they seemed quite grumpy. But perhaps like Mike Joy, I am both grumpy *and* angry. The government is making policy behind

closed doors, setting up taskforces at great expense and then ignoring them. Was there ever a taskforce report buried as successfully as the WEAG (Welfare expert advisory group) was last year?

What we're getting is pseudo critiques of policy via social media- through blogs and comments. We need a well-funded institution such as the Institute for Fiscal Studies in London or a Business Roundtable

### **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

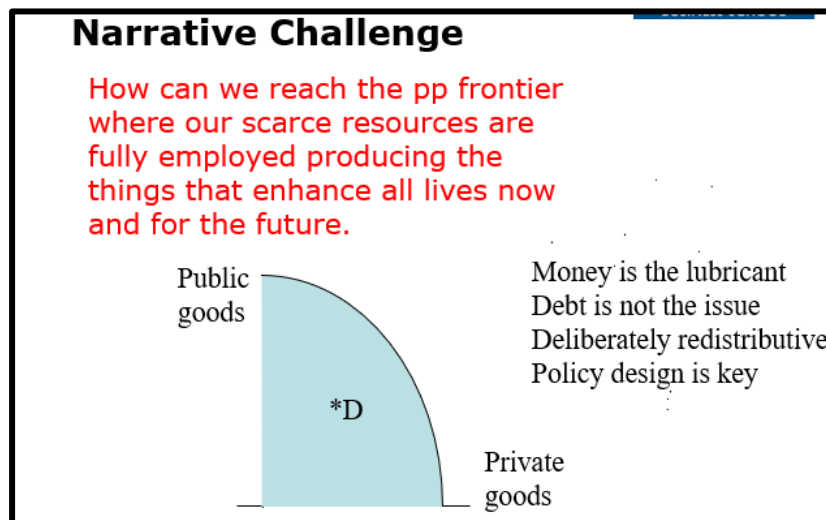
equivalent with a left-wing perspective to give us sound analysis. Instead as we go towards this election we can expect a collection of soft, sound-bite, warm fuzzies.

These can be very annoying. On your seat today one of the political parties (Social Credit) has planted a brochure. They are proposing a universal family benefit payment to children of \$30 per child (I think they meant \$30 per week). This policy would cost \$1.6+ billion it would hardly help the poor at all and it would give the money at the top end of the

distribution where it is not needed. These sound bite fuzzies get bandied about as serious policy without the hard work that needs to be done for credibility.

Kevin Hague had a really good visual about the economy being a subset of the environment. For the narrative challenge that we face I'm going to use another kind of visual.

Some of you will remember from stage one economics one of the first diagrams that you encounter is the production possibility frontier.



On the frontier we have a fully employed economy where we can only have more of one thing we have less of the other. The aim is on the frontier using all our scarce resources of land, labour, natural sources, machinery, technology efficiently

to produce the kind of things that actually matter for our lives now and for the future.

In the illustration I put public goods versus private goods, or collective goods versus and the sorts of things that we buy in the private markets. On the frontier we can only have more of one if we have less of the other.

Right now, of course, we are not at the frontier we are at a point well underneath that frontier and sadly probably going to go even further below, so it could be the R word for recession but I put D for depression.

The task we face is to get back to the frontier with a different, **not business as usual**, but a **better** mix of both public goods and private goods. And, within each type of good we want a better mix. For public or collective goods we want less emphasis on roads for example and more on things like state run childhood education (mentioned by Liz Gordon), better environmental quality, better health service. And we want to be at a point on the frontier that above all reflects more equality in how goods are distributed.

Let's not get hung up on money. The PP frontier emphasises the real economy and the best use of scarce resources. Money is the lubricant: the tool whereby we make that transition to the frontier. COVID-19 offers

the unique opportunity to transition to a better point on the frontier. Most economists are saying let's not worry about debt or money creation at the moment. Nevertheless, policies should be not just 'spend more money to get us fully employed again', but well designed, and in a way to be deliberately redistributive.

So please lets stop scaring ourselves silly that public debt is the issue and that our poor children are going to be overburdened by public debt. Without going into the many issues around the nature of public debt, can I make a plea that for a start we please measure it properly?

Budget figures show that by 2024 that net public debt is expected to be 55% of GDP. But if we include the assets in the NZ super fund as many economists believe we should, it reduces to 37%-a figure that is far less scary.

**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

**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

The objective is to get us to the frontier with far less inequality and poverty. We heard today about how low-income groups have already paid a very high price. We can't afford wasteful ill designed policies.

There are numerous examples-The Winter energy payment this

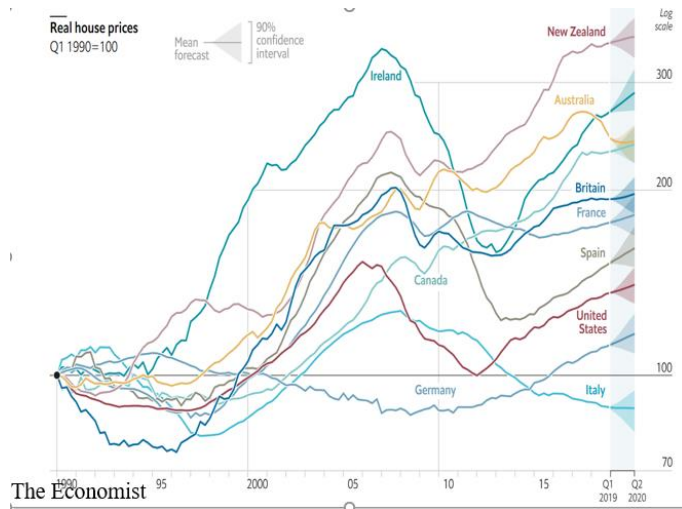
year pays about \$400 million unnecessarily to well-off superannuitants. Working for Families remains highly discriminatory and key parts fail to reach the poorest families.

Many speakers today have talked about housing. Housing is a fundamental consideration as we seek to do things differently as we

**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

move to the pp frontier. Our housing stock reflects hugely misallocated resources from leaky buildings that cost a fortune to repair, to scarce resources sucked into building luxury mansions. At the same time, we have a really poorly functioning rental sector, overcrowding and homelessness.



Housing has been treated as a tax favoured tradable commodity it's how people get rich in New Zealand is how people save for their retirement and that has to be fixed if we are going to make any progress.

The real house price index tells a sobering story. The start of the graph in 1990 was

when we should have introduced a capital gains tax. NZ is today top of the pops in the speculative bubble picture, replacing Ireland that crashed a decade ago.

The time has passed to stop talking about capital gains. Too many reviews and no action.

As the housing market has picked up this year, the share of new purchases favouring an investment purposes is again increasing. 40 something percent of new purchases in Auckland are for investment.

### 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?

"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](#)

Housing has been undertaxed for decades and is 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.

Rather than talking about Capital gains tax or a net wealth tax or a land tax. the alternative that makes the most sense is the risk-free rate method better understood as the net equity approach.

### **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%

It addresses the real elephant in the room which is housing affordability.

A person's net equity (value of real estate less mortgages) would be treated as if they had deposited in the bank and were earning an income on it say 3%. That way it becomes part of the progressive income tax system

It captures in the base all the untaxed capital gains of the past. It would have the benefit of a very useful source of revenue which we desperately need as well as shifting the emphasis away from luxury housing overinvestment in housing as a commodity.

### **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