Any economic fix starts with fixing inequality

The economy is not separate from the people it serves. Regardless of the success of shovel-ready programmes, the domestic tourist industry or the America’s Cup, there should be no celebration if the mushrooming poverty/inequality problem continues to be ignored.

As an economist, I see the high price to be paid for the degree of poverty that intensified during the Covid-19 lockdowns and appears set to accelerate under current policy settings. This cost is carried not just by hungry children, nor just by parents at their wits’ end as the unremitting holiday period and then the new school year looms. Nor is it carried just by the children admitted to hospitals as the rates of third world diseases like rheumatic fever, respiratory disease and skin infections continue to rise. The impact on society is far wider: in lost economic activity, jobs and opportunities, lost human potential, a more violent desperate underclass and a return to a Victorian charity model in lieu of a fair welfare state.

Looking into the unknown of 2021 and beyond, policy inertia and a failure to own the problem, it is hard to be optimistic. Many low-income families struggled in 2020 spite of wage subsidies, Covid-19 payments, and doubling of the winter energy payment. Now those have come to an end, a bleak summer stretches ahead.

The message from the foodbanks is deeply troubling as they warn of collapse and burnout. People have to rely on the humiliation of queuing for hours, either physically or on the phone, for food parcels that may contain an assortment of items foreign to their usual diets or items they would never choose to eat or even know how to cook. Business leaders might begin to appreciate the extreme inefficiency and waste this method of feeding our families entails.

Nor can it be in the interest of business to have the unemployed effectively able to earn only $90 extra while on the Jobseeker benefit - a threshold that has changed only marginally since the 1980s. When casual work is all that is on offer, a higher threshold is well overdue. Yes, there was a promise pre-election to raise it to $160 - but why has that not happened already? Will it be a budget item, months away? Is the fact that approval of the business community was seemingly absent for this and for other needed reforms that the government treads so cautiously?

Visionary policies, not incrementalism
Effective visionary policies, not cautious incrementalism will be essential for the sustainable recovery and a truly thriving economy. Nowhere is the effect of inaction
more evident than in the damaging speculative housing bubble that has been allowed to develop unchecked. As fortunes are made at the top end of the wealth distribution and home ownership prospects plummet, the fundamentals of wellbeing, secure affordable housing and adequate income for a growing substratum of society rapidly disappears. The flow-on effects on education and health of ill-housed children will be a heavy price to pay.

As an early baby boomer, I benefited from the gains in the Auckland property market, from 13 years of highly subsidised tertiary education, and now the universal basic income of NZ Super, a low tax rate, the winter energy payment and free city transport. As an advocate for children, I see my generation that has been so blessed, largely turning a blind eye to the family misery that is all around us. I see a broken welfare system, discriminatory child income support mechanisms system, children with decayed teeth in pain, families living in squalor, disabled people desperate for food and unable to look after themselves. I see mental health issues untreated and worsening with enormous implications for society and the economy in the future.

As a specialist in retirement incomes policies, I see a sizeable minority of the next cohort aged over 50 approaching retirement far less well prepared unless they inherit money and own their own homes. Women, in particular, are affected by the recession and, as in Australia, we are heading to more elder female homelessness and poverty.

Welfare, tax, demographics
Here are three things that might support a better outcome than the pessimistic one I see. The first is for business leaders to encourage and show they will support bold action on welfare reform. This includes setting adult benefits at a liveable level, individual entitlement, higher threshold for earnings and a reduction in punitive sanctions. There needs to be a better understanding in the business world of Working for Families (WFF).

The old slogans of disdain such as ‘WFF is communism by stealth’ or just ‘subsidy for employers’ need to be dismissed for the nonsense they are. WFF is the programme for the support of the young and should be as well supported as NZ Super is for the old. WFF needs to be modernised and upgraded. Currently, parents miss out a substantial part of the WFF payment if they’re on a benefit, even if they’re in paid work as well, and this disproportionately affects women, Māori and Pacific and their children. This implicit sexism and racism must be remedied and then the WFF payment indexed annually to wages just like the successful set and forget policy, the Super fund.

The second thing that needs to happen is for a high-powered group of experts to be given six weeks to design a feasible immediate tax response to the housing market. I
personally think that the only option that offers us hope of reversing the inequality in housing is the Risk Free Rate Method (RFRM). In brief, in the RFRM the individual’s aggregate holdings of all housing less registered first mortgages (net equity) is treated as if it had been invested at the bank generating a taxable income. A per person exemption of net equity of say $1 million in the family home (or even $1.5m in Auckland) could apply so that the RFRM would not affect ordinary homeownership.

Genuine landlords in the serious business of renting may even be better off under the RFRM. They would be saved the accountants’ cost of complicated rental returns and disputes over what to deduct. This encouragement is fair enough as they are in the business of doing something useful. Rents may even fall. Other landlords whose properties lie vacant or who are deducting huge costs against their rentals will not be able to return tax losses and would be taxed fully on their net equity imputed income. If they sell there will be more supply for first homeowners and that may begin to make home ownership a little more affordable. Of course, there will be problems around the edge, but these don’t appear insurmountable. The main thing is that government makes a plan.

A feasible immediate tax response is needed to resolve the housing bubble. The third thing that needs to happen urgently is for there to be a proper focus on the rapid demographic change and the inevitable pressures that ageing of the population will bring. It is all very well to have a successful NZ Super policy, but it needs to adapt to be fairer to all. There needs to be much more understanding of policy choices around the age, rates of Super, income tests, the role KiwiSaver might play and what the NZ super fund is supposed to do for example.

The lack of a sense of urgency in addressing corrosive inequality is puzzling but government appears to be waiting for the approval of business and the wider public to proceed with transformative redistributive policies. The lukewarm responses to its own taskforces on tax and welfare suggest it is not willing to take a leadership role. Maybe a louder voice from the business world would stiffen the spine.

Susan St John is an associate professor in Economics, director of the Retirement Policy and Research Centre at the University of Auckland Business School and economics spokesperson for the Child Poverty Action Group.

Comments

anon3 Thu, 07 Jan 2021 - 9:58am
I'm not sure why landlords who have borrowed large amounts should pay any less tax than landlords who have paid off their mortgage on their rental properties?

• Reply

Mark Hubbard Thu, 07 Jan 2021 - 11:09am
Because they have much less cash flow perhaps?
Net taxable profit should be income less expenses to earn that income. End of.

Those landlords are providing housing: take them out of the equation you make the supposed housing crisis worse.

- Reply

anon3 Thu, 07 Jan 2021 - 2:03pm
You can't expect to deduct massive amounts of interest and then pay no tax on the capital gain! Interest is a financing cost anyway - not a rental business expense!

- Reply

Not Me Fri, 08 Jan 2021 - 9:08am
Interest is a legitimate expense. To enable growth most business owners have to borrow to invest in capital. Without the ability to borrow business investment would stall. Stalling employment will follow and NZ would be left behind the rest of the world and our economy would shrink. To disallow interest as an expense would mean that the rich would get richer and people with good business ideas would have to sell their soul to a rich person for funding.

Not sure why you see landlords any different to other businesses. They provide a service to people who would otherwise be ineligible to receive state housing. Would you rather they were homeless?

- Reply

Anonymous Fri, 08 Jan 2021 - 11:43am
Approximately a third of landlords claim a loss of on average $8000 because they are using a highly leveraged model.

This has been banned with lifestyle properties and low cap foreign owned businesses.

With a lifestyle property you can’t say “heys it a five acre farm so I’m writing off my bmw as a work vehicle”. You need to be able to show some actual business activity that was intended to make a profit.

The problems are staring us the face...but unfortunately now that so many people have become landlords it will be very hard to get honest actions from officials on this. It's really just another form of corruption but we don't use that word in NZ.

- Reply

John Morrison Sat, 09 Jan 2021 - 10:07am
Excellent, except it is I believe ; "The answers (not problems) are staring us the face.." And it is most definitely “corruption”. A form of corruption that is legalized and protected by our Parliament.
Anonymous  
Sun, 10 Jan 2021 - 9:14am  
You are right John. The answers are staring us in the face but we can’t stop nor can we continue on this path.

- Reply

anon3  
Fri, 08 Jan 2021 - 2:17pm  
No other businesses could borrow so much they have no hope of making a profit for many years. We even have thin cap laws for multinationals to try to limit such manipulation!

- Reply

hamishmnzl  
Thu, 07 Jan 2021 - 2:14pm  
The housing doesn't self destruct if a landlord sells to a owner occupier.

- Reply

TeWheke  
Thu, 07 Jan 2021 - 5:39pm  
When landlords bail out, the properties dont just vanish in a puff of pique Mark Hubbard. They linger, waiting for a keen new owner to possess & occupy them. On balance this is a greater good for the greatest number & not something to be afraid of.

I personally think there is prima facie plausibility in the old fashioned distinction of owner/occupiers being good honest citizens who produce things versus landlords as "rentiers" with the latter parasitic upon the former.

- Reply

John Morrison  
Sat, 09 Jan 2021 - 9:26am  
"...landlords are providing housing:" That's BS Mr Hubbard, the house was there when the landlord bought it and it would be still there if he sold it. Landlords invest in and rent out houses to make a profit. To suggest they do it out of kindness for the poor and NZ could not do without them is as dopey as it is false.

- Reply

simon_888561  
Thu, 07 Jan 2021 - 10:19am  
When policy makers use the term "transformative redistributive policies" we should be alarmed. Wealth was never “distributed” in the first place like fairy dust: it was created by hard work and entrepreneurship. We need policies that encourage hard work and self reliance, not more government dependency.

- Reply

John Morrison  
Thu, 07 Jan 2021 - 6:05pm  
Absolutely correct Simon. But you shouldn't be too hard on Susan, she learnt "economics" at Uni. from a professor who learnt theirs at Uni from a professor .......... Susan's first sentence says it all. "The economy is not separate from the people it serves." Gee whizz Susan believes the economy "serves" the people. Well
now that is interesting. I thought the "economy" is what the old Greeks called "eco" meaning household/natural/environment/home and "nomy" meaning management/rule/law. So we get, natural rule/law, or household management with people trucking and trading with one another. You will not find that taught at our Uni.s

- Reply

mattandkerstinThu, 07 Jan 2021 - 12:22pm
So we should borrow over the holiday house and invest in art to avoid this proposed tax?

- Reply

anon3Thu, 07 Jan 2021 - 2:04pm
Yep, because art is such a sure fire investment!

- Reply

Timothy BridgesThu, 07 Jan 2021 - 2:30pm
Same tired old left wing rhetoric. Lots of words used but in a nutshell citing the usual list of problems with the only solution suggested being increasing handouts enabled by wealth redistribution. No word ever mentioned about personal responsibility - i.e. the role that people themselves play in their predicaments. A small example - teeth decay is mentioned and yet dentists are free for children. What gives? How about examining the cultures prevalent in the underclasses as a starting point? The fundamentals of the family unit, accountability, discipline which form part of that culture. That is the essence of poverty right there

- Reply

woodwormThu, 07 Jan 2021 - 2:49pm
Typical ivory tower comments all from zero real world experience. Obviously if we make being a beneficiary more attractive and comfortable, we will attract more of them. Is that what we need?
People who create growth and wealth are able to choose many countries to locate their operations. Unlikely they will be attracted by the policies espoused here.
I suggest that perhaps what we might try, is to encourage beneficiaries and others to adopt more socially and economically viable life choices. Do this by offering $ rewards for having fewer children, attaining educational goals, being drug free, and crime free. The alternativ.es dont seem to have worked that well.
And of course those that wish to pay more taxes should be free to do so.

- Reply

AnonymousFri, 08 Jan 2021 - 8:56pm
Recently I had a look at a tenants books. It was a child care center. The turnover was $1.2-1.3k of which $750-800k was actually government funding. The center had 75 children enrolled. So each child was getting $10k in subsidy.
So what’s the real economics of this....it’s not just $10k paid out per child to the childcare center, it’s also the cost of the education department overheads.... let’s say another $5k.

I really wonder at what point we would be better to have children at home and be properly looked after and less stress on young families.

We have ended up pumping our economy and gdp with all this additional economic activity but fail to consider the true costs and poor outcomes. Who are the real beneficiaries??

Anonymous Thu, 07 Jan 2021 - 3:10pm

Sounds like communism by stealth. Where is the inequality in NZ, everyone can access schools, university, healthcare. It’s just what you as the individual do with that opportunity, when will people start understanding its the choices you make that drive your life outcomes, rather than blaming the people that have simply made better choices or made different sacrifices.

The only true equity in a property is what you have contributed from tax paid income or sweat equity neither of which should be taxed. Because if you are buying and selling in a market then (all other things being equal) all the other houses are subject to the same general market gain or fall.

Anonymous Thu, 07 Jan 2021 - 4:48pm

Wow, no mention of education to help reduce poverty.....yet it’s one of the very few things that can make a difference long term without communist style redistribution of wealth.

As for kids going to hospital with third world diseases, well that falls on the parents...did you not hear that there is free healthcare for kids, so no excuses....rubbish parenting causes this.

All you are proposing is to reduce the number of people who are willing to work hard, save and invest and generate wealth for others through employment......

I do feel sorry for the kids growing up in poverty, but everything you have proposed is the ambulance at the bottom of the cliff....why don't you come up with some ideas to stop them falling off the cliff
Interesting to see the comment that the Government needs to actually have a plan to address the housing issue. It is not a complex problem but has many facets. Such a plan would have to:
- include a population target to drive/limit immigration,
- address the constraints on building,
- address the subsidy of the accommodation supplement that is a wealth transfer to landlords,
- recognise just how important home lending is to SME businesses, and how much of it supports employment.

The benefits of getting this right are equally diverse and to be applauded. All the social benefits above as well as a return to a focus on productive enterprises.

But will we see a concerted plan to address all the relevant factors? Kiwibuild says no.

johnequipment Thu, 07 Jan 2021 - 5:08pm
Susan St John is very polite and the state of some poor people in Auckland and the like is in a tough way. Every time jacinda puts the minimum wage up it will eventually put prices up, like food. This will also increase the cost of building a new house because materials will go up too. Now jacinda is talking about green homes which from what I can make out means every new home will have to comply to a score in heating, insulation, dryness inside the new home. My point is that if this legislation is passed new builds will cost more. Looks like Jacinda wants it both ways again.

johnequipment Thu, 07 Jan 2021 - 5:53pm
Good afternoon Susan St John. In my opinion more taxes won't solve anything, it may even possibly reduce the amount of houses being built. Has it ever crossed your mind that the builder is the physical work and driver in building a house and they take risk to do this, if you don’t want to believe this go and talk to a banker. There is also other people that also take risk in this equation, that is the banker, the developer and in some cases investor. Building can be hard work and many people have no appreciation of this.

Not Me Fri, 08 Jan 2021 - 8:57am
Who in their right mind would want to have to deal with councils to get consents.......it must take the patience of a saint to deal with the inconsistent application of the rules by councils

johnequipment Fri, 08 Jan 2021 - 8:33am
good morning susan st john, I live in the SI, over the xmas + new year I was working on and off and spoke to a person from Auckland. His dad had sold his house in a good suburb in auckland and two other houses had sold in the same street. The new
owners would like to cart the houses away and build multiple dwellings on these sites, all under the new Auckland unity plan, the council stopped them as there is not enough infrastructure in that street. If builders can't build what more can I say, maybe you could court Goff and or get the govt to help Auckland speed this process up. In my view building provides work and equity for the whole country. Don't forget the govt gets it's fair share of GST from every new house created.

- Reply

**Anonymous** Sat, 09 Jan 2021 - 6:46pm
Infrastructure includes water reticulation and sewage removal. It is not a simple thing to suddenly increase those. It is also extremely expensive. Who should pay? The developers, the other residents on that street, or the ratepayers of Auckland?

- Reply

**anon3** Mon, 11 Jan 2021 - 10:14am
Not compared to over inflated land prices!

- Reply

**Graeme Two** Fri, 08 Jan 2021 - 11:52am
The fundamental issue underwriting inequality in NZ is the collapse of the nuclear family. This is followed very closely by poor laws that not only make that process easier but encourage it, closely followed by absent men (mostly) not wanting to bear the consequences of their actions, ably assisted in many cases by the women refusing to disclose this information. It is a rort. Families are failing in huge numbers & it's not just the poor ones either. Split families help create poverty, ask any divorcee. Split families punish the children involved, whether they like it or not. This can lead to anger, depression & ill directed attitudes towards life in general. If we focus on the family then everything else (mostly) will follow.

- Reply

**Anonymous** Fri, 08 Jan 2021 - 1:25pm
The implementation of family law in NZ is so hostile to the principal income earner that it is surprising that anyone gets married these days. The socialists have tilted the playing field even further against them by treating unmarried's as married as well. Why are people going to choose long term relationships when they know they will get screwed over if it fails?

- Reply

**paulehughes** Fri, 08 Jan 2021 - 5:10pm
Exactly.

- Reply

**paulehughes** Fri, 08 Jan 2021 - 5:14pm
Poverty is not a lack of money.
That said, we can see how governments can borrow (or print) money effectively for Covid. The effects of Covid will last for some time yet. The cost of money is at an all time historical low. The NZ government could borrow another 50B or 100B. If these funds were used to form the basis of a NZ sovereign wealth fund, the additional return of 100B invested in global stock markets over the next 30 years minus the NZ governents borrowing rate which is almost zero and will be close to zero for years to come could end poverty in NZ without saddling anyone (any taxpayers) at all. NZ govt debt is low compared to similar western nations.

- Reply

Anonymous Sun, 10 Jan 2021 - 8:06pm
Bring on the RFRM, IMHO Govts have sat on their hands while watching the same economic behaviour that has brought the US to its knees and meant that the lowest 50% of tax payer in that country have become 80% poorer over the last 30 years. Everybody having the ability to buy and pay off a house is a value in the NZ psyche, paying someone else the same amount of money "not" to buy a house with rents, simply isnt a very kiwi thing. We value equality and we need to improve productivity in NZ. This cant happen when such large investment in non productive assets is happening and driving housing inflation which TBH, will see a whole generation of kiwi working harder for much less. Ridiculous investing behaviour, fix is with heavy taxes.

- Reply

Anonymous Mon, 11 Jan 2021 - 11:00am
One thing is becoming patently obvious about the current Government, Not only do they not have the competence to do anything meaningful to address inequality, they also lack the will. Try and remember where the Marxist Socialist mantra came from, it does not exist without the presence of large groups of disaffected, marginalised & militant sections of the electorate. These groups in New Zealand include in the main, the Unemployed, The Homeless, and Indigenous Groups, their numbers grow bigger by the day, by way of increased payouts & media coverage, stage managed & fed through by perhaps the slickest PR team ever seen in this country - albeit at the (apparently) acceptable cost of actually telling the truth.

- Reply

Anonymous Tue, 12 Jan 2021 - 10:37am
Confusion always between relative poverty and absolute poverty. The first is solved by redistribution so always has appeal to the left as it meets their ideological goals and it drives most of the rhetoric from this side of politics. Absolute poverty is attacked by economic growth and targeted support which is hugely different. For example the millions lifted out of poverty worldwide (including Africa) in the last couple of decades has been the latter. I think the National government's welfare investment approach, recklessly abandoned by the current government, was largely based on a focus on absolute policy and more effective in giving a hand up to the people who are really in trouble and who society should support.
"...transformative redistributive policies..." - enough to send shivers down the Collective spine. What declaration comes after that whopper? "Workers of the world unite!" perhaps? Or "You cannot make a revolution in white gloves!" NZ has spent circa $1 trillion just on social welfare since 1898, and apart from King Dick's Old Age Pension (I will concede, it did succeed) look where it got us.

Did a bit of digging - even Marx eschewed equality (subordination to a notion of universal equality or egalitarianism) rather he's vision was to produce a classless society based on radical individualism, where individuals could pursue their own interests and desires (all pillaged from wikipedia). Equality of access to the means of production - yes, but not equality of outcome which is what St John appears to anticipate with her call for "...transformative redistributive policies..."