Economic Solutions?

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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

Public goods

Private goods

* D
Let's 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*

<table>
<thead>
<tr>
<th>June Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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<tr>
<td>Core Crown Expenses</td>
<td>80,576</td>
<td>87,041</td>
<td>113,998</td>
<td>113,529</td>
<td>119,767</td>
<td>118,638</td>
<td>113,025</td>
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<tr>
<td>Core Crown Revenue</td>
<td>86,778</td>
<td>93,474</td>
<td>89,474</td>
<td>87,023</td>
<td>94,615</td>
<td>104,015</td>
<td>109,920</td>
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<tr>
<td>OBE/EGAL</td>
<td>5,534</td>
<td>7,370</td>
<td>-28,293</td>
<td>-29,599</td>
<td>-27,199</td>
<td>-16,454</td>
<td>-4,935</td>
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<tr>
<td>Operating Balance</td>
<td>8,396</td>
<td>329</td>
<td>-37,115</td>
<td>-29,326</td>
<td>-24,232</td>
<td>-13,009</td>
<td>-1,036</td>
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<tr>
<td>Net capital spending$^4$</td>
<td>5,400</td>
<td>5,700</td>
<td>8,800</td>
<td>12,900</td>
<td>8,600</td>
<td>8,900</td>
<td>8,300</td>
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<tr>
<td>Net debt (incl NZSF)</td>
<td>19,460</td>
<td>14,060</td>
<td>47,598</td>
<td>82,764</td>
<td>111,699</td>
<td>131,688</td>
<td>138,220</td>
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<tr>
<td>Net debt (excl NZSF)</td>
<td>57,495</td>
<td>57,736</td>
<td>88,935</td>
<td>129,489</td>
<td>163,599</td>
<td>188,718</td>
<td>200,780</td>
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<th>Percent of GDP</th>
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<td>Core Crown Expenses</td>
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*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
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.

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, 18th 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?