

Tax Working Group Public Submissions Information Release

Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

February 27th 2018

Dear Tax Working Group,

Please will you read and consider the points I make re taxation and NZ society relevant to your your review of our tax sytem.

I have enclosed information on the place that NZ occupies alongside the world's wealthiest nations with reference to our levels of drug use, mental health, prisoners per unit of population, child well being, infant mortality, teenage pregnancies, and overall social problems.

The evidence presented indicates that a major source of our problems of social dysfunction arises from our inequality of wealth distribution. I have seen the change in our Godzone from the 1970's to the 2000's. It has been successive governments' policy to create a "nanny state" looking after the people of high net worth, instead of protecting the interests of all of us, especially the less fortunate and their children.

Following, is evidence that the high levels of wealth inequality in our nation leads to greater social dysfunction. The graphs and figures are largely taken from "The Spirit Level" written by Richard Wilkinson and Kate Pickett. They used data collected from 456 sources, including OECD data.

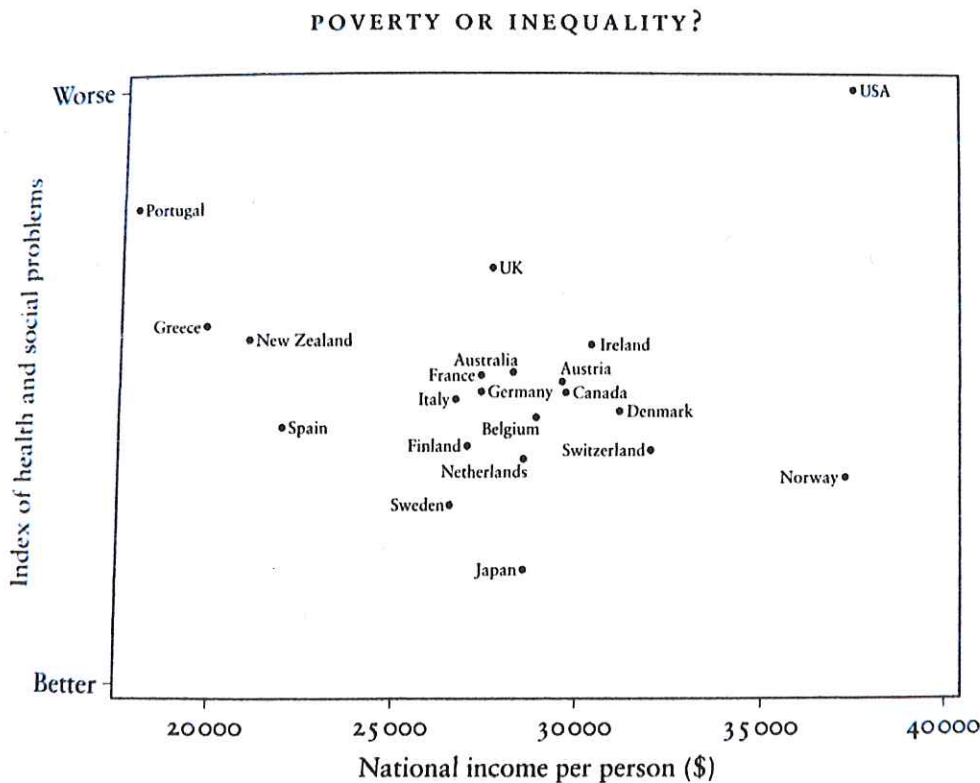


Figure 2.3 Health and social problems are only weakly related to national

average income among rich countries.-----

It can be seen that no matter how wealthy a "rich" country is there is no correlation of social problems with the wealth of the nation. Richer or poorer on average, the social problems are similar.

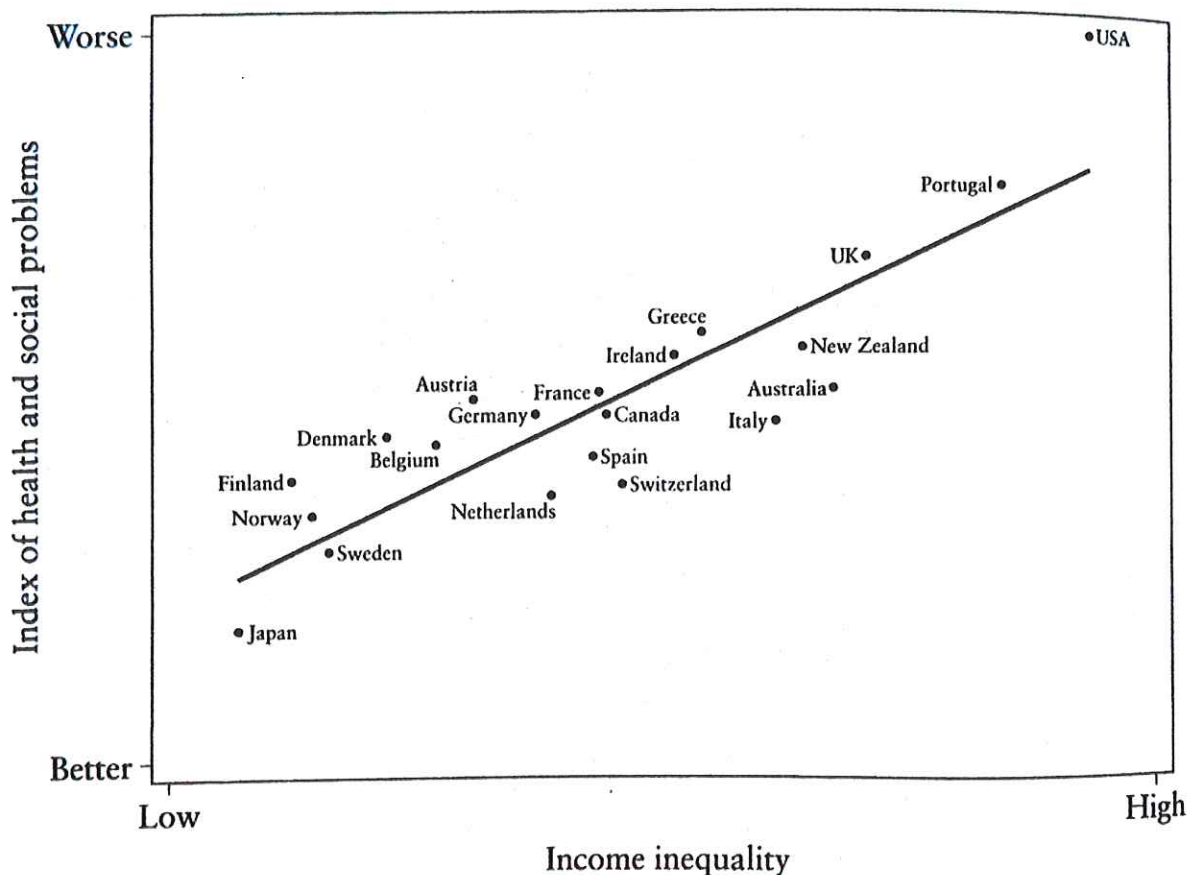


Figure 13.1 Health and social problems are more common in more unequal countries.

However, when the "distribution of wealth", the width of the gap between those of high net worth and the poorest in a nation is considered a different picture emerges. The health and social problems of a nation steadily increase with wealth inequality. In our Godzone our social dysfunction used be on a par with the Nordic countries, but now we stand alongside those nations who followed the 'Rogernomics', Margaret Thatcher and Reagan philosophy that *"there is no such thing as society only individuals"*.

Evidence shows that it is a fallacious philosophy. Government policy based on this premise results in an increase in social dysfunction not less. The Nordic nations who do not embrace this fallacious philosophy prove the point, they are a reference point to the way we used to live as a nation.

Healthy nations are those that recognise everyone in a nation lives in that **one** society. A society can only be healthy when all members recognise their membership of one home nation and we are **all** responsible for the health and well being of each other.

The Godzone I used to know was like that. It was, in fact, the **first** "rich" nation to recognise **and** implement legislation to ensure each successive government recognised that they are elected to protect the well being of **all** of us.

MENTAL HEALTH AND DRUG USE

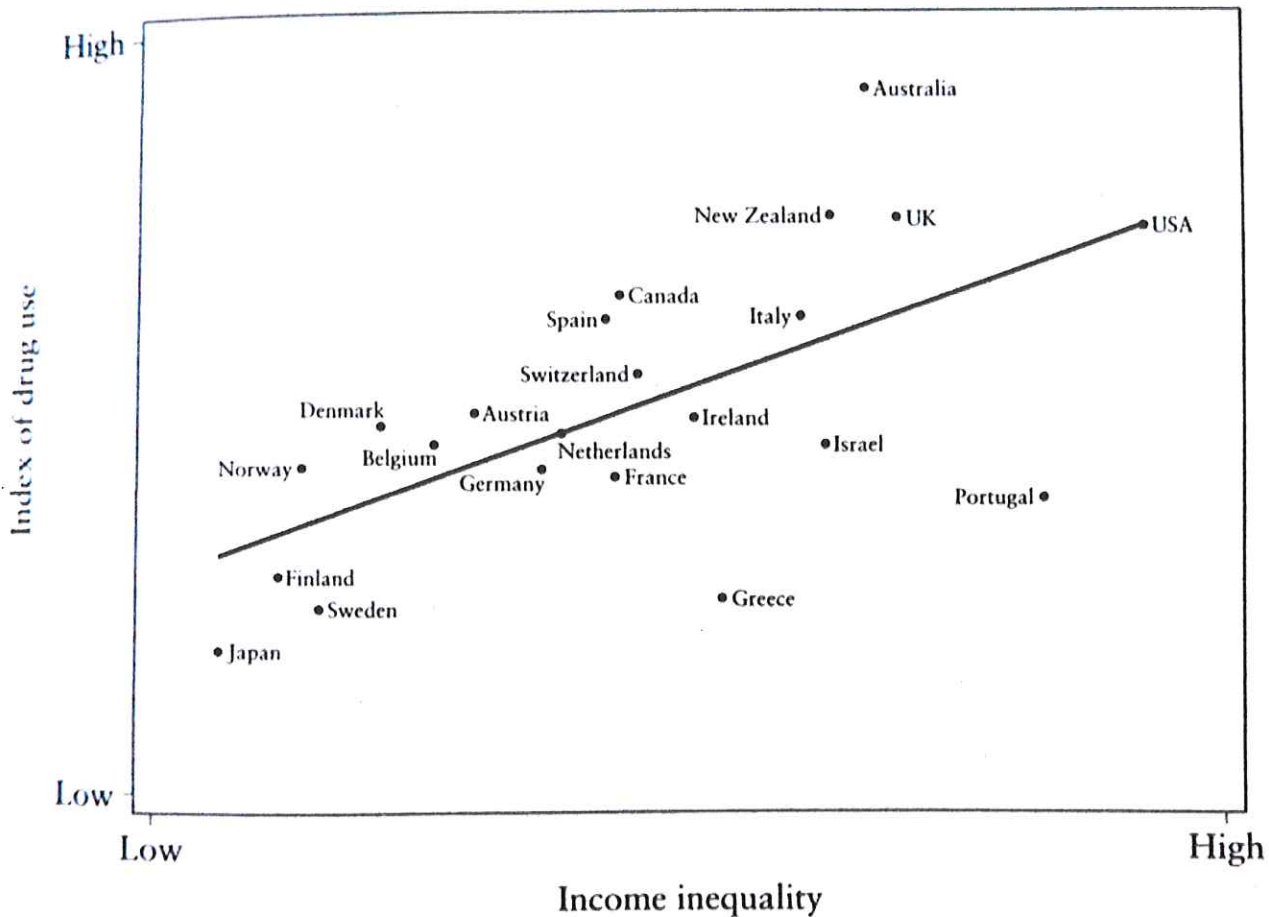


Figure 5.3 *The use of illegal drugs is more common in more unequal countries.*

We have developed a drug abuse problem, which is causing misery for many and the health care is expensive to us as a nation.

We seek to educate and treat addiction rather than look at the economic causes of the poverty and hopelessness that results in the use of drugs.

We are fourth in the size of the problem, and it is correlated strongly with wealth inequality.

If a person can see what others in society have and the person finds that no matter what they do they can't have the life that the rest of the society has then self medication to treat the resulting depression and hopelessness with drugs is the result.

The drug abuse then leads to so many other problems, theft, violence, sickness, family dysfunction, sick children and in many cases prison.

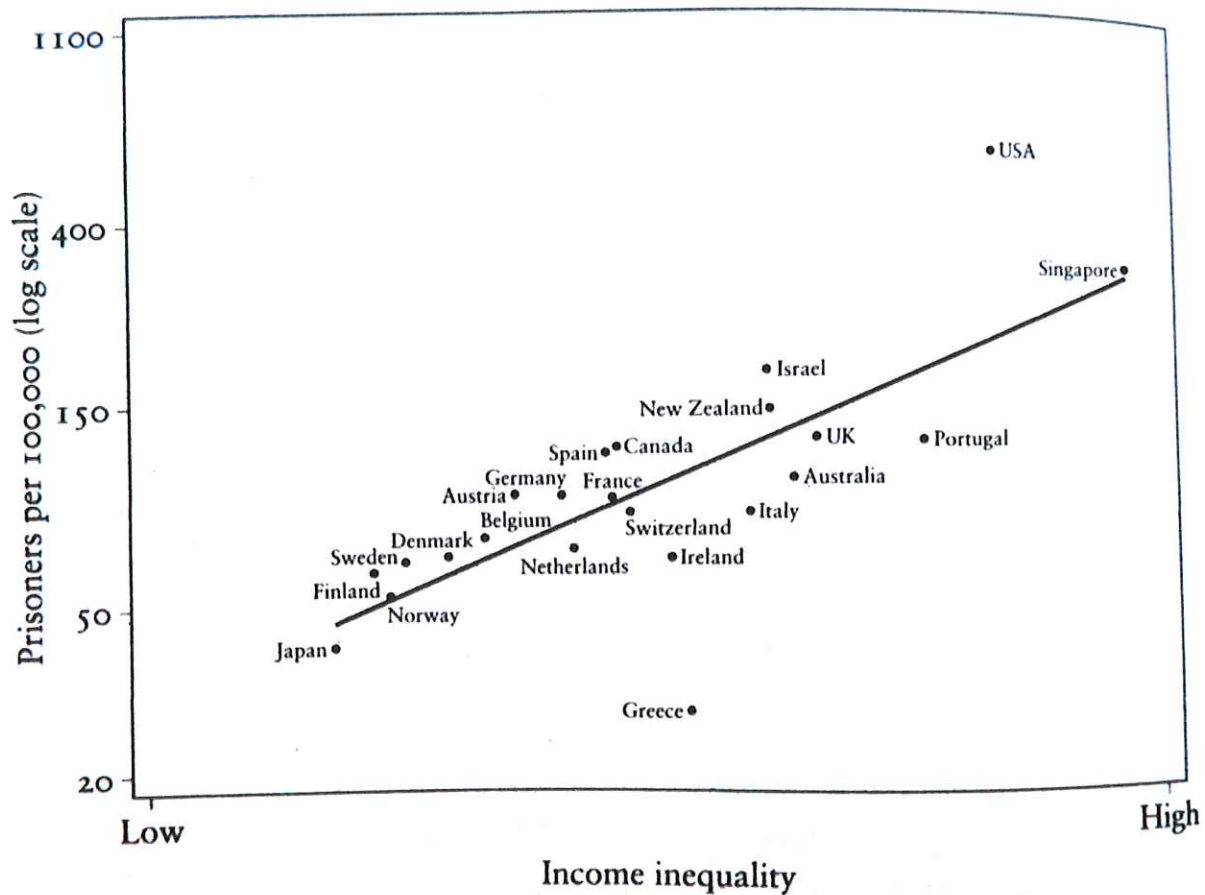


Figure 11.1 *More people are imprisoned in more unequal countries.*¹⁴⁹

We used to have less than 1% unemployment and a much more even distribution of wealth.

A person didn't need to break into your home because they were at work, a person didn't steal your car because they could buy your own. We had full employment because we owned our own services, telephones, power, post office, health services, rail, road transport, and people were employed by the state.

It was more effective to employ people instead of paying the dole, it not only gave people a living it meant we didn't need to build more prisons and pay over \$100,000 a year to keep someone incarcerated. Give a prisoner half that and they would not be in prison. Since the 1970's we are continuing to build more prisons. We are the size of one city, it is ridiculous. This situation is the result of government policy causing wealth inequality. We don't need another prison, we need a change in government tax policy to provide more state income to support more state enterprise and employment.

When the state employed people instead of paying people a benefit, the full employment kept wages high throughout the economy.

There was no need for minimum wage legislation and no need to pay a wage subsidy "working for families" and a landlord subsidy "rent subsidies". Because there was full employment the market kept wages high.

If government policy is to keep unemployment above 3-4%, "the market" will keep wages low. It is always the government that controls the "wage market" through its policies. When the state employs people and the unemployment rate is less than 2% then the market keeps wages at a "living wage" and the state need not pay subsidies such as "working for families" and "rent subsidies".

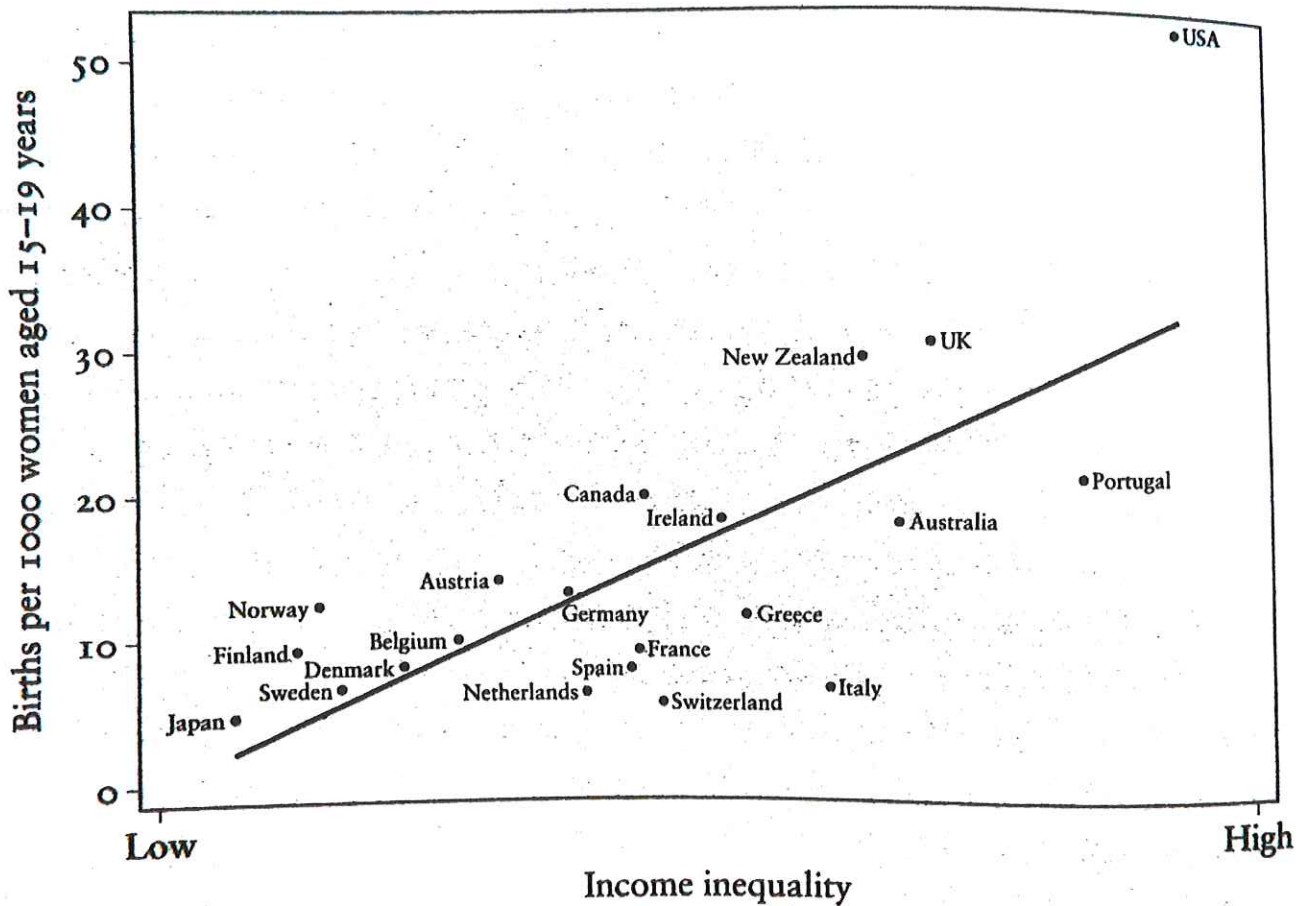


Figure 9.2 Teenage birth rates are higher in more unequal countries.¹⁸⁵

A child can be a source of income when you can't get a permanent full time job, or the minimum wage is so low that welfare support is higher than the wage paid.

Benefits for a young mother are not the only alternative income for a mother and child. "Working for families with children" is also an income for a mother and child, for a family. It is also a subsidy to an employer who benefits by employing labour without providing an income sufficient for a family with children.

If a person cannot earn enough to support a family then a state subsidy to the family instead of legislating a higher minimum wage seems a "long way around the houses".

Just as an aside, a rent subsidy is a subsidy for a landlord to buy a house using a loan from an Australian bank. In reality our tax dollar goes to Australia via the investors' house purchase mortgage, instead of circulating back to us the tax payer via a state house rent paid for a state house. Why would a government prefer to subsidise tax payer dollars going to Australia instead of returning the tax payers' dollars the treasury, I have no idea.

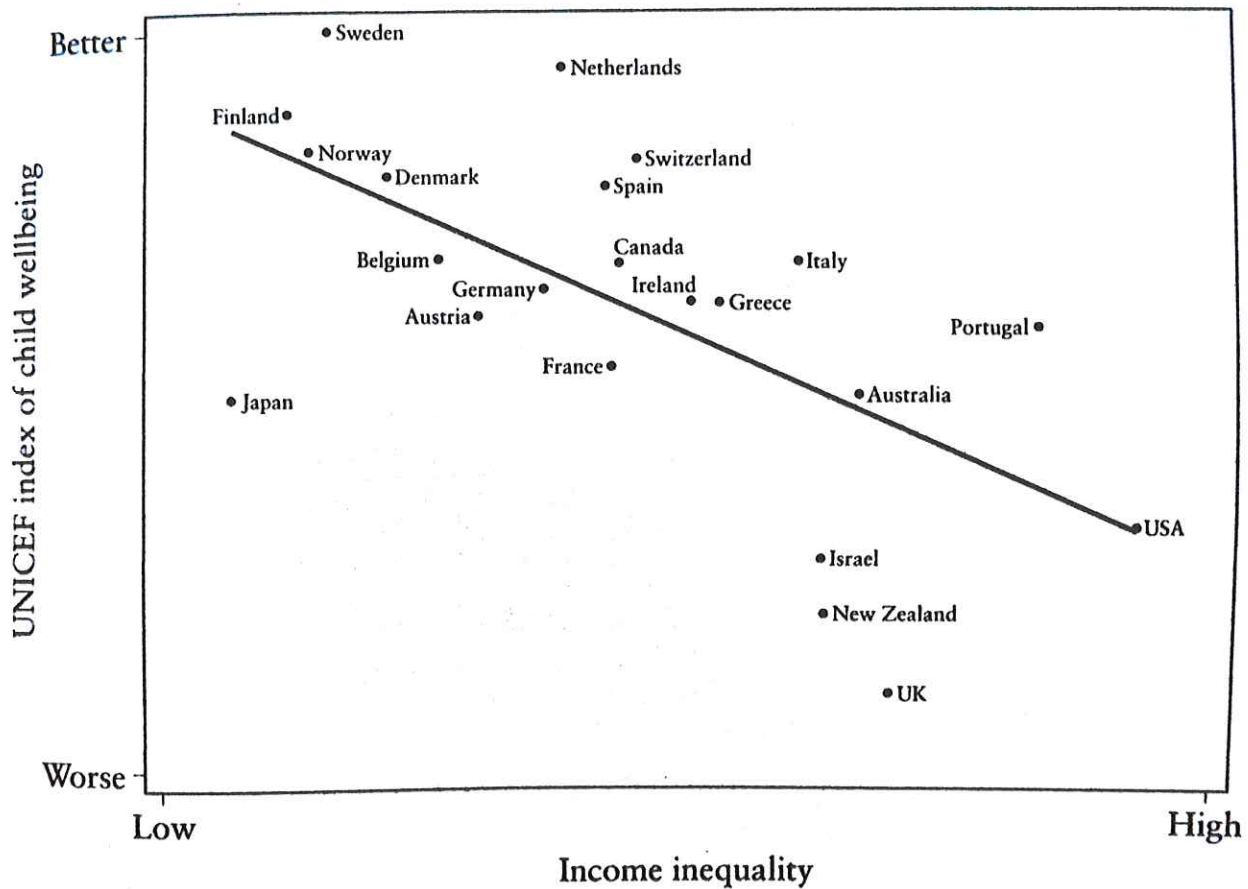


Figure 2.6 *The UNICEF index of child wellbeing in rich countries is related to inequality.*

A graph of shame, only the UK of all the wealthy countries has a lower index of child well being than we have, and again we are one of the top 6 in wealth inequality.

We only have the population of a large city and we cannot generate enough government revenue to take care of our children.

We need a more progressive tax regime to collect revenue to enable the government to spend more on services needed by our society to reduce our shameful level of child poverty.

It would help if the tax revenue came from a progressive income tax system instead of a regressive GST tax system.

Reducing or removing completely GST, and replacing it with a progressive income tax, would help the poor to afford to buy the conditions needed for the well being of their children, e.g. food, power and accommodation.

Figure 6.3 *Life expectancy is related to inequality in rich countries.*

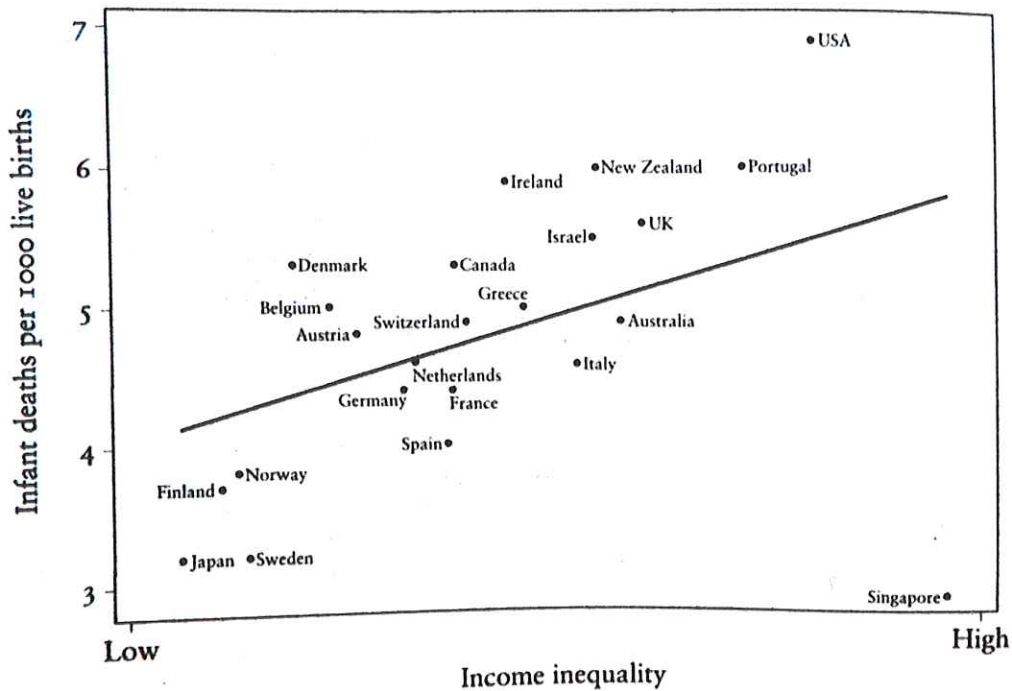
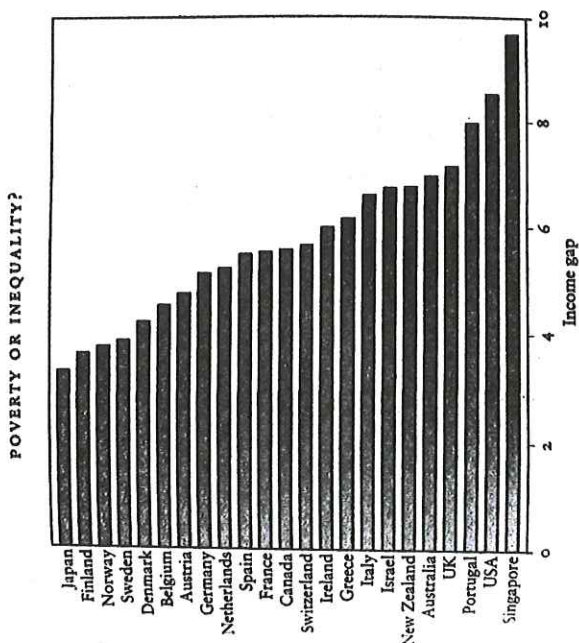


Figure 6.4 *Infant mortality is related to inequality in rich countries.*

Government does not receive enough revenue even to provide conditions for preventing comparatively high levels of child mortality; we have the highest level of infant mortality of the wealthy countries.

Wide wealth inequality, and a lack of sufficient government revenue is a result of successive governments' policy, this situation does not arise by chance or fate or providence, it arises directly from government policy to reduce tax revenue and thus having to reduce the funding of government funded services



This bar graph shows the level of wealth inequality.

I only have the wealth statistics for 2009, and I know that since then government policy has increased the wealth disparity of our nation.

2009	
Share of total net worth	
Wealthiest 1%	18.1
Next 4%	21.3
Next 5%	14.1
Next 40%	42.6
Poorest 50%	3.8

Source: Statistics New Zealand.

The starkness of these statistics can be made more obvious if we equate the total wealth of the nation to \$100 and the population to 100 people.

Number of people	Wealth per person
1	\$18.10
4	\$5.43
5	\$2.80
40	\$1.06
50	\$0.09

We have a society where "relatively", 50 people have 9c each and 1 person has \$18.10 for themselves. This is caused by government policy not by accident or by the relative hard work of the people, it is by the change in taxation policy since the 1970's.

When our previous Prime Minister was asked about increasing taxation for the high net worth individuals, (we used to call them rich), to increase government revenue he said quite confidently that they already paid half of the tax. Well yes they do, as our wealth inequality shows that they would do, if they own more than half the wealth of the nation they naturally pay half the tax but not in proportion to their wealth relative to the other half of the population.

GST is widely acknowledged as an economically efficient method of tax collection and a regressive tax. Income tax is a difficult tax to ensure complete collection but it is a progressive tax and a socially "efficient" fair tax.

[GST, a tax on consumption is an economically efficient tax on consumption but is a regressive tax; a transaction tax, a tax on capital would also be economically efficient, but, not regressive, and importantly also socially responsible.]

My request is please consider the evidence that shows social dysfunction is a product of high wealth inequality and consider taxation regimes that would redress our wealth inequality.

Please consider the reduction or total removal of GST and the re-establishment of the progressive income tax that we used to have in the dim distance past; a minimum rate on the first tranche of income with a progressive increase in rate for successively higher tranches.

I realise how difficult it is to prevent income tax avoidance through "schemes" but if persisted with it will result in a more even distribution of wealth and a reduction in social dysfunction.

[A More radical idea is a transaction tax, which is a tax on capital equivalent to GST being tax on consumption. A transaction tax would be as efficient as GST but not regressive. It would collect the same amount of revenue and lead to less wealth inequality.]

We as a nation used to regard tax not as a burden, "the government asking for our money" but as a monetary contribution from us to maintain the health of our nation. We used to see it as our contribution to our nation to provide for the services we all needed. The more we individually gained from our Godzone both as income and wealth accumulation the more we contributed for the well being of us all.

Could suggest to the government that the government begin to re-educate our current population through advertising, and through government statements and announcements to explain that taxation is people making contributions to the government, not the government taking their money.

Explain to the nation that the tax revenue is a revenue stream for our elected representatives to spend for the well being of us all. It is not a penalty for earning a higher income, it is a contribution commensurate with what a person gains from living in our nation. It is a "get more out, put more in" system to keep a wealthy healthy nation for us all. We used to understand that and Nordic nations still do.

Increasing the tax burden of a high income earner by \$100 a week makes little difference to their ability to meet their expenditure demands, increase the income of a poor person by \$100, by an income tax reduction or the removal of G.S.T., and it makes a huge difference and provides needed relief to be able to provide for their family.

The social dysfunction of our Godzone can be largely negated by a change in government tax policy, these major social problems can be solved and reversed by changing government policy.

My suggestions for your serious consideration is to remove GST, re-establish a progressive income tax system, raise the minimum wage, and consider a transaction tax.

Yours sincerely,

[1]

Dr. Paul A. Wood.