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Summary

The most important issue facing New Zealanders is the elimination of poverty. So New Zealand should immediately do its part to end extreme poverty in all forms by 2030, beginning in New Zealand, where this is immediately possible. The path to this in New Zealand is by the institution of a universal basic income [UBI] for all adults in the country, employing Milton Friedman's notion of a negative income tax. It is worth noting other suggestions to improve the situation of the poor in New Zealand, and Douglas and MacCulloch (2016) have suggested interesting reforms to the current tax system. The fresh ways of thinking about revisions to the welfare system could be looked at. However, the lasting issue that they offer, which the Tax Working Group [TWG] should certainly consider, is to extend the voluntary Kiwi-Saver scheme to a compulsory one. But, in the process, the current New Zealand Super Fund [hereafter the Cullen Fund] should be split and transferred into accounts tagged to individuals. Creating individual accounts would remove the temptation to any government wishing to appropriate the Fund for other purposes when hit by some inevitable national catastrophic crisis. The individual funds could be managed fairly by one public institution, perhaps by the inland revenue, rather than by private institutions whose current variable charges seem to cream administrative advantages for themselves.

One consequence of an adequately designed UBI would be the elimination of discriminating regulations, all sorts of targeted hurdles, and means testing regimes, which are far from easy to police. The bureaucracies involved in administering and testing are too often the scene of acrimony and dissension which create tension for both administrator and recipient alike. The intention would be that an adequately designed UBI would eliminate the payment of unemployment benefits, sickness benefits, supported living payments, sole parent support, ACC salary compensation, and other working for families arrangements.

A UBI coupled with a flat income tax rate would actually create a progressive tax regime on salaries. But the settings of the UBI and income tax rate might not prove high enough so the advantages of the Goods and Services Tax [GST] should be retained, and even extended. Clearly, any GST is regressive, falling harder on those with lower incomes. Nevertheless, the current broad-based approach is efficient and raising the rate to 17.5% would bring in a further $3.2b to the government's revenues. And a 20% rate, matching some other OECD countries, would do even more. The offset in the elimination of poverty could be achieved by higher values of UBI and higher rates of personal income tax. Those receiving only the basic UBI as income would be returning a considerable portion of their grant to the government's revenue through the GST they pay.

In addition to the GST an assets tax levelled on wealth and capital gains would bring in some revenue, take some steps towards putting a brake on growing inequality and bring greater transparency. The improvement to transparency and a consequent understanding of the opportunities in the economy should bring an improvement to democratic participation. Improved democratic performance is necessary for facing problems in resource management issues, climate change, and infrastructure matters such as transport, water reticulation, energy generation, housing, the elimination of waste as well as in health and education.

The other dominant issues for the tax system, once poverty and retirement are adequately dealt with, are providing for health and education. Of the two areas it is health demands which are the likelier to blow out. But the current arrangements make for a reasonable balance. However, in a small country like New Zealand there are impediments to universal provision in health with the moderating effects of different boards. A truly centralized system can be effective. Certainly, Douglas and MacCulloch speak highly of the Singapore system for containing health spending (a mere 4% of GDP in Singapore, against 9.5% or even 11% in NZ), but instituting their approach to individual health funds might be a step too far.

Finally, there are further gains to be made towards transparency and efficiency, understanding, participation and consequent engagement in a democratic economy. These could be achieved by centralizing issues, and coordinating efforts in dealing with the challenges facing the country in health and education, resource management, climate change, and infrastructure matters such as transport, water reticulation, energy generation, housing and the elimination of waste. Consultation is always necessary but removing the impediments and lack of coordination in the disparate local body bailiwicks would be a good thing for the better directed use of resources.

Consequently, this submission to the Tax Working Group [TWG] offers four recommendations:

Recommendation 1
Set progressive income tax policy which includes the possibility of some form of guaranteed basic income involving a measure of **negative income tax** favouring the less advantaged.

Recommendation 2
Convert the Cullen Fund into a scheme of **individual retirement accounts** into which compulsory contributions are added. These would be supervised centrally in the manner of an individual Kiwi-Saver fund coupled with the control of the Cullen Fund.

Recommendation 3
A **wealth tax** recommendation of two parts:

- **a** Set an asset and wealth tax policy that strikes a correct balance between encouraging national economic growth while restricting the **concentration of wealth in capital assets** confined to the lockers of an economic elite.
- **b** Such an asset and wealth tax, which would also take account of capital gains: it would require and improve **transparency,** so that **economic inequalities would be reduced**; and it would recognize greater **fairness** between individuals, groups and generations.

Recommendation 4
Recognize the opportunities of data processing technologies to eliminate layers of local government and so **centralize democratic functions** to adequately and fairly deal with health (obesity) and education, resource management issues, climate change (greenhouse gas emissions), and infrastructure matters such as transport, water reticulation, energy generation, housing and the elimination of waste (pollution).

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[1]

Introduction

I would like to thank the Tax Working Group for their helpful Background Paper. This, along with the prods from the government to think again about New Zealand's tax structure, is useful in stimulating thoughts about what is important to New Zealanders. For by devoting part of what is earned into the government's coffers we think again about what those funds will support.

In the 1970s and 1980s, along with the growth of managerialism, there was considerable questioning about the failures of the welfare state, and the extent of the taxes necessary to support it. Contempt was expressed in the soubriquet "nanny state". Nevertheless as Pinker (2018, p. 109) points out in a recent volume:

> The economist Leandro Prados de la Escosura found a strong correlation between percentage of GDP that an OECD country allocated to social transfers as it developed between 1880and 2000 and its score on a composite measure of prosperity, health and education. And tellingly, the number of libertarian paradises in the world — developed countries without substantial social spending — is zero.

Now the proportion of taxes collected as a proportion of its Gross Domestic Product [GDP] and the spending on its welfare state varies considerably between countries as Table 1 on the next page illustrates. There is only room on one page for some of the figures that the CIA have collected. Their *World Fact Book* has data from 156 of the world's countries but only six [New Zealand and five others] are given space here. The CIA has taxes collected in NZ as 36.5% of the country's GDP while the TWG's figure of 32% is no doubt more correct. So something must be said about the accuracy of figures offered by the CIA and others, even those used in this submission. Any figures are likely to be only approximately correct. This will be true of other figures throughout this submission, for figures may be occasionally collected from dated sources, and, in addition, there can be differences among countries' definitions of categories as well as problems in data collection. Consequently, in the construction of tables on a Universal Basic Income [UBI] for New Zealand later in this submission other figures rather than those from the CIA are employed.

But in Table 1 there are five other countries to compare with New Zealand. They reveal that whatever talk there is of globalization there remains considerable variation among nations in their construction and their collection of taxes and other revenues. So on this record New Zealand collects $14,990 per person considerably less than the $38,650 in Norway. New Zealand, of course, records GDP per person at only 58% of Norway's ($41,170/$70,650). But New Zealand's collection of revenues per person is not 58% of Norway's, rather it is considerably lower, only 39% ($14,990/$38,650). We might raise taxes to do better.

But how is the table constructed overall? In addition to the limit of columns across the page there were also limits on the number of entries down. In that regard the choice has been to reveal a variety of well-being indicators, and, in particular, the spending choices on health and education. A first country to compare with New Zealand is near neighbour, Australia. At the other end we have two nations in different ways dominant on the world scene: there is the leading world economy, USA, and the most populous Asian giant, China. These are both countries with which New Zealand aspires to do business. Finland with the lowest GINI index for family income score in the CIA's list, was a consideration but was rejected because there was only room for one European nation. Germany, France or England could have found a place or fourth placed European, Netherlands. Still, the progressive tax gathering and social spending in Scandinavian countries is often remarked upon so we have Norway with its population just a nudge closer to New Zealand's. But why Benin?: a country so poor that the *Fact Book* points out that "[a]n estimated 4.4 million, more than 40%, of Beninese live abroad", most in neighbouring Nigeria or Cote d' Ivoire. The point is that Benin is not merely poor, it is also 91st from top on the family GINI index list, actually one place ranked higher than New Zealand at 92nd. This reveals something about the scoring of inequality using GINI indices, and talk of inequality generally. Inequality in a nation is a matter of importance but it is even more difficult to make assumptions and deductions about inequality than it is to take measures of poverty. For as Pinker points out in a recent book:

> "Inequality is not the same as poverty, and it is not a fundamental dimension of human flourishing. In comparisons of well-being across countries, it pales in importance next to overall wealth. An increase in inequality is not necessarily bad; as societies escape from universal poverty, they are bound to become more unequal, and the uneven surge may be repeated when a society discovers new sources of wealth. (2018, p. 120).

And while the family index has families in Benin more unequal than in New Zealand, that unfortunate country has more than 35% (almost 4 million) of its population below the poverty line. New Zealand is not so unfortunate, although New Zealand, perhaps like Australia and Norway, is too concerned about unfairness to make poverty line statistics available.

Table 1 GST and various measures in six countries.

	NZ	Australia	Norway	Benin	USA	China
Population	4,510,327	23,232,413	5,320,045	11,038,805	65,648,100	1,379,302,771
GDP billion US$PPP*	$186	$1,235	$376	$25	$19,360	$23,120
GDP per capita	$41,172	$53,158	$70,657	$2,291	$59,273	$16,762
Dependency ratios:						
total dependency:	52.9	51.1	52.1	86.1	55.5	37.7
potential supp.:(2015 est.)	4.5	4.4	4	16.6	3.5	7.5
GINI x 100 for family inc.	36.2	30.3	26.8	36.5	45.0	46.5
GDP by end use						
household consumption:	57.10%	57.10%	44.70%	69%	69.10%	39.10%
governmt. consumption:	18.40%	19%	24.60%	17%	17.20%	14.60%
investment in fixed cap:	23.20%	24.20%	23.80%	26.50%	16.30%	43.30%
investment in inventories:	0.03%	0%	4%	-0.10%	0.30%	1.10%
exports of goods & servs:	27.40%	20.50%	36.40%	27.10%	12.20%	19.60%
imports of goods & servs:	-26.40%	-20.80%	-33.50%	-39.60%	-15.10%	-17.70%
Health expenditures % GDP	11%	9.40%	9.70%	4.60%	17.10%	5.50%
Health expenditures est. /p**	$4,529	$4,997	$6,854	$105	$10,136	$922
Maternal death/100,000 births	11	6	5	405	14	27
Infant mortality rate /1,000 bth	4.4	4.3	2.5	52.8	5.8	12
Life expectancy at birth in yrs	81.3	82.3	81.9	62.3	80	75.7
Obesity - adult prevalence rate	30.80%	29.00%	23.10%	9.60%	36.20%	6.20%
Density / 1000 population						
Physicians	3.06	3.5	4.39	0.15	2.57	3.63
Hospital beds	2.8	3.8	3.8	0.5	2.9	4.2
Education spending % GDP	6.30%	5.30%	7.40%	4.30%	4.90%	not given
Education spending est. /p	$2,594	$2,817	$5,229	$99	$2,904	
School (years primary to tertiary)	19	20	18	12	17	14
Labour force (millions)	2.655	12.91	2.797	3.662	160.4	806.7
Unemployment rate %	4.90%	5.60%	4%	1%	4.40%	4%
Unemployment #	130,095	722,960	111,880	36,620	7,057,600	32,268,000
Unemployment %, yth ages 15-24	13.20%	12.70%	11.10%	2.40%	10.40%	not given
Net migration rate / 1000	2.2	5.5	5.9	0	3.9	not given
Net migration approx. #	9,923	127,778	31,388	0	1,273,841	
Population below poverty line %	not given	not given	not given	36.20%	15.10%	3.30%
Population below poverty line #				3,996,047	49,320,494	45,516,991
Gross national saving % GDP	21.10%	34.40%	34.40%	20%	17.50%	45.40%
Gross national saving est. /p	$8,687.33	$18,286.52	$24,306.11	$458.20	$10,372.73	$7,609.99
Public debt % GDP	32%	47.10%	37%	56.40%	77.40%	18.60%
Public debt est. /p	$13,175.10	$25,037.65	$26,143.20	$1,292.13	$45,877.09	$3,117.75
Debt - external (billions)	$88	$1,670	$642.30	$2,716	$17,910	$1,649
Taxes & other revenues % GDP	36.40%	33.20%	54.70%	14.60%	22.00%	22.40%
Taxes & other revenues est. /p	$14,986.67	$17,648.62	$38,649.54	$334.49	$13,040.00	$3,754.71

Source: Values taken and derived from CIA's *World Fact Book*. Most, but not all taken or estimated in the period 2015-2017.
* PPP = Purchasing power parity with $US
/p = per person

Now while the United Nations has a commendable aspiration to end extreme poverty in all its forms by 2030, and NZ has a part to play in that, there is still the issue of poverty in New Zealand. Eliminating poverty should be possible in New Zealand and should be the dominant concern of the TWG. Even the richest country in the world, the US with an average annual income of nearly $60,000 per person, has close on 50 million people below its poverty line in Table 1. But poverty shows a different face in different countries and New Zealand's and the United States' poverty will display differently from poverty in somewhere like Benin. Pinker puts the case:

> Together, technology and globalization have transformed what it means to be a poor person, at least in developed countries. The old stereotype of poverty was an emaciated pauper in rags. Today, the poor are as likely to be as overweight as their employers, and dressed in the same fleece, sneakers, and jeans. The poor used to be called the have-nots. In 2011, more than 95 percent of American households below the poverty line had electricity, running water, flush toilets, a refrigerator, a stove and a color TV. (2018, p. 117).

And the poor may have been carrying a smart phone as well, or like the deprived young Baltimore blacks represented on the HBO series, *The Wire*, some of the poor may be quite conversant with operating a burner. Nevertheless, one of the important functions of the tax system everywhere is to efficiently provide the transfers which are necessary in a well functioning welfare state.

The approach in this submission to eliminating poverty in New Zealand is through the introduction of a UBI. Douglas & MacCulloch (2016) in an approach with which the TWG is, no doubt, familiar is somewhat different. One aspect of their ideas survives in this submission. They would distribute the present Cullen Fund into individual retirement fund accounts into which it would be compulsory to accumulate funds replacing the current voluntary Kiwi-Saver schemes:

> For many people their contributions to the new proposed fund will simply replace their existing Kiwi-Saver contributions. Our new regime extends the retirement age from 65 to 70 years old over the next 20 years (i.e., by 3 months per year) and retains the current government pension, although its source of funding changes. (Douglas & MacCulloch, 2016, p. 21)

This seems a good idea.

But their recommendation for individual accounts to insure against catastrophes in employment or health are not supported in my submission. My submission suggests that the state is the most efficient insurer against catastrophic outcomes, indeed, such universal insurance is fundamental to the construction of the welfare functions in the modern state. However, there will always be complaints as to which events can be guarded against since "[t]he fundamental problem facing individuals and societies alike is the fact that our wants exceed our capacity for satisfying those wants." (Rohlf, 1999, p. 4). Pinker makes the case for actuarial prudence:

> Social spending, like everything, has downsides. As with all insurance, it can create a "moral hazard" in which the insured slack off or take foolish risks, counting on the insurer to bail them out if they fail. And since the premiums have to cover the payouts, if the actuaries get the numbers wrong or the numbers change so that more money is taken out than put in, the system can collapse. In reality social spending is never exactly like insurance but is a combination of insurance, investment and charity. Its success thus depends on the degree to which the citizens of a country sense they are part of one community, and that fellow feeling can be strained when the beneficiaries are disproportionately the immigrants or ethnic minorities. These tensions are inherent to social spending and will always be politically contentious. Though there is no "correct amount," all developed states have decided that the benefits of social transfers outweigh the costs and have settled on moderately large amounts, cushioned by their massive wealth." (Pinker, 2018, p. 110).

Douglas and MacCulloch's proposal for risk cover and health funds are rejected in my submission because they point a path to private insurance schemes which don't seem to provide better health outcomes for all. Privately administered health insurance schemes seem to be the bane of fair and universal health outcomes in the US. In Table 1 we see per person spending in the US at $10,316 against the NZ figure of $4,529. Devoting 17.1% of GDP to health may be favouring those who create health scares and panics, more than those improving physical and mental well-being. Certainly New Zealand's health and obesity figures seem better than those in the US. Norway's health spending , on the other hand, — much higher per person than New Zealand's although a lower percentage figure of their GDP — seems to offer much reduced obesity rates. Is there some connection between that country's much higher rate of tax collection and its corresponding high figure for GDP per person. Perhaps it has something to do with the way that tax spending is incorporated in GDP calculations. Anyway, my feeling is that Douglas and MacCulloch's approach to reducing taxes will ultimately favour those who own more. Surely, simply cutting taxes is never without worries, as the CIA report in their *World Fact Book*:

> In December 2017, Congress passed and President Donald TRUMP signed the Tax Cuts and Jobs Act, which, among its various provisions, reduces the corporate tax rate from 35% to 21%; lowers the individual tax rate for those with the highest incomes from 39.6% to 37%, and by lesser percentages for those at lower income levels; changes many deductions and credits used to calculate taxable income; and eliminates in 2019 the penalty imposed on taxpayers who do not obtain the minimum amount of health insurance required under the ACA. The new taxes took effect on 1 January 2018; the tax cut for corporations are permanent, but those for individuals are scheduled to expire after 2025. The Joint Committee on Taxation (JCT) under the Congressional Budget Office estimates that the new law will reduce tax revenues and increase the federal deficit by about $1.45 trillion over the 2018-2027 period. (CIA, 2017)

"No new taxes" rings a bell with any politician leader's electoral tribe. And in a recent opinion piece speaking out for struggling middle class citizens coping with negative gearing and the threats of a capital gains tax Hannah McQueen writes "if your household's total income is less than $200,000, you should be allowed to use the tax rebate today while you're still making a loss, because that's when you need it." (2018, p. D12) Now Hannah McQueen is billed as a financial adviser but the struggles of a household with income close to $200,000 should not be too much of a concern to the TWG or to the politicians you must advise.

The struggles of politicians, on the other hand, should be very much the concern of the TWG. For the TWG must be interested to help those politicians sell their reformed tax policies to their electorates. The position of politicians in a democracy is a curious one; a position to which Grayling (2017) has given some attention. The position of politicians and the better ways of operating a democracy were also given some attention in a strange little volume edited by Baron and Eisen (2004). The authors were promoting the idea of Binding Citizens' Initiated Referenda [BCIR] and their hope that a BCIR might halt the introduction of genetically modified food products into this country. The virtue of their little volume was that they sort the opinions of a variety of politicians and thought leaders at the time, and recorded some opinions from the likes of Christine Fletcher, Roger Kerr, David Lange, Winston Peters, and Simon Upton. Lange explained that even the executive branch of government had many frustrations, while individual MPs were unable to introduce Bills which might have budget implications. Upton wrote:

> As a believer in limited government, I would be very concerned to see unlimited taxing and spending power handed over to a referendum-led auction. But of course, that is precisely what we have now except that it is conducted on our behalf by political parties in between elections. (Upton, 2004, p. 98)

Fletcher mentioned her frustrations arising from the restrictions imposed on her by her party's disciplines which she believed prevented her from adequately representing the wishes of her electorate's voters. However, even she went on to suggest that much of the power to act was vested outside parliament when she wrote:

> Moreover, unelected bureaucrats still have even more power than the parties in national as well as local government. They are accountable to no one and their numbers and influence have increased over the years to the point where they both make and enforce the laws ("regulations") with hardly any input from elected representatives, much less the people themselves. (Fletcher, 2004, p. 90)

Perhaps she exaggerated a little, but maybe, from time to time, members of the TWG will find themselves serving those unelected bureaucrats.

Grayling looks to some aspects of moderating the influence of the party discipline which apparently so irked Fletcher. I suppose Grayling had in mind the British experience which was fictionally illustrated in *The House of Cards* trilogy where Francis Urquhart would urge his party whip to put a bit of stick about. Grayling complains that the bullying of the whipping system which serves the interests of the party, prevents politicians from doing their proper job. That job is to consider, on balance, the interests of all their citizens. Grayling explains how democracy was long feared by political leaders as a vehicle which would lead to mob rule. The unruly mob is always a threat. It might be a mob of 4½ million Beninese in Nigeria or Cote d'Ivoire. It might be a mob displaced by war or climate change. It might be a mob displaced by unemployment or poverty. It might be a mob that a heartless, ruthless but machiavellian politician a Chavez, Salazar, Mussolini, Pinochet or even a Trump might coddle. A mob might still prevail in any given BCIR.

Even inequality can be used to excite the mob :

> "In capitalizing on concerns about inequality, Trump has demonized immigrants and trade partners while ignoring the major disrupter of lower middle-class jobs, technological change. He has also opposed the measures that most successfully mitigate its harms, namely progressive taxation and social spending. (Pinker, 2018, p. 335).

Grayling suggests that citizens should not expect an impossible perfection from their governing institutions. But it should not be impossible to organize a good enough government in a representative democracy. He insists that, ideally, electors should vote in representatives to go to their legislature to do a job of work. That work is of a nature that the electors themselves, so busy about their own lives, have too little time to attend to. Grayling insists that the job of those elected to the legislature is to seek out information, do due diligence, and listen to rational argument, based on evidence. It is their job to discuss and debate that evidence and the arguments presented. Consequently the elected should form considered judgments, enact laws, and supervise the outcomes of those laws, based upon their resulting, well-formed judgments. The job of a parliamentary member once elected is not, as Fletcher seemed to believe, to simply do the bidding of her electorate. They are not at the legislature, to act as delegates or as messengers, doing what is demanded of them from their electorate's prejudiced or poorly formed points of view. Rather they are sent to the legislature to listen to experts and to form their judgments on issues in the interests of all the country's population. Grayling has suggested three things which are absolutely necessary if a society is to get that good enough government: (1) transparency (which is absolutely key); (2) breaking the grip of the party machine's whipping system, which is ultimately a system of bullying; and (3) controlling the amount of money that can be spent in an election.

A limit on spending in the electoral process is particularly important. Lawrence Lessig (2011) has suggested that the United States government has become corrupted by its system of paid lobbying. Important issues like global warming, universal healthcare, and the elimination of poverty in a simplified tax system are hampered by the institutional inertia that lobbying imposes. Instead of dealing with such important problems the governors in the USA render a $90 billion payback a year to their parties' donors through subsidies and regulatory protections. He points out one instance of the problem where the US government has passed a total of thirty-two laws in sixteen years in "vigorous defense of the copyright industries" (p. 57) while there have been no laws passed to deal with carbon pollution. Clearly, the problem of defying the pirates of copyright material is a problem beyond solving despite the continual attention given to it. *Dependence corruption*, Lessig claims, has riddled the party system in the US: the interests of big business conglomerates, such as media companies and others with their medical patents, conglomerates with an eye to their stock values and profits to their stock holders have bought out the government.

Lessig's contribution has been summarized on one Boston website:

> Lessig says that our political system is so corrupted by money that it hurts both causes on the left and the right. On the left, for instance, the failure to pass global warming legislation or universal healthcare, in the face of institutional inertia. While on the right, he says, issues like simplifying the tax code have fallen victim to the same forces resisting reform. "Our current tax system with all its complexities is in part designed to make it easier for candidates, in particular congressmen, to raise money to get back to congress," Lessig said. "All sorts of special exceptions which expire after a limited period of time are just a reason to pick up the phone and call somebody and say 'Your exception is about to expire, here's a good reason for you to help us fight to get it to extend.' And that gives them the opportunity to practice what is really a type of extortion – shaking the trees of money in the private sector into their campaign coffers so that they can run for congress again."
>
> Those giveaways, tax breaks, and subsidies all corrupt and distort the free market, which should anger both sides of the political spectrum, he said. " Businesses increasingly recognize that their highest return on investment comes not from inventing the next great widget, instead spending money on lobbyists who can get special deals built into the tax code or built into the government spending programs that give them a higher return than any of the investment that they would ever make by investing in genuine innovation." (On Point: wbur, 2012)

So the TWG's task here is to recommend improvements to our representatives so they can carry out Grayling's hopes for good enough government, good enough to have a tax system which avoids *dependence corruption.* Certainly, the tax system must provide against the externalities of New Zealand's energy programs and deal with issues arising from climate change. But equally in the structure of the tax system the government must deal to eliminate poverty and for that perhaps the best tax system will include a negative income tax or universal basic income.

A Universal Basic Income

In Table 2 three representative take home salaries are given to demonstrate how a flat tax rate of 45% would actually prove to be effectively variable for different amounts of salary once a universal basic figure is employed. In this table a UBI of $18,000 is the basis for calculations.

Table 2 Take home salaries and IRD gains from 3 representative salary earners given a universal basic income of $18,000 and a flat tax rate of 45% on their earnings.

Personal income	Personal income -45% tax	Taxed income + UBI	Effective tax rate	IRD transfers [-]/ gains per salary earner
$30,000	$16,500	$34,500	-15%	-$4,500
$60,000	$33,000	$51,000	15%	$9,000
$250,000	$137,500	$155,500	37.8%	$94,500

The feasibility of a UBI is dealt with by using some representative numbers from an age structure table and some generous and loosely based assumptions to account for the numbers who may receive nothing more than a basic income from their government. The assumptions are used to derive a number for those who do not have to pay any income tax but receive nothing more than transfers. The assumptions are loose in the sense that the categories (particularly unproductive youth and elderly) do not represent the actual categories or the distribution of those actual categories, composed of those not earning, for one reason or another, in various age groups. The values from the CIA *World Fact Book* (2017) are adjusted , totalling up to the 4.9m NZ population, the larger population figure for New Zealand on a 2018 Wikipedia site. The number of people in the standard non-dependent range (between 15-64 years) in Table 3 would be 3,188,061. However, in some of the calculations below I apply a larger 5.8% unemployment rate to the 2,655,000 labour force figure rather than the CIA's which was a lower 4.9%.

Table 3 Age Structure of the NZ population and its dependency ratios

Age groups	Numbers	Ratio	
0-14 years	964,566	***Youth dependency***	30.3%
15-24 years	654,329		
25-54 years	1,951,155		
55-64 years	582,578		
65 + years	747,373	***Elderly dependency***	23.4%
		Potential support ratio [PSR]	4.27
Total Population	4,900,000		

Source: Numbers from CIA (2018) adjusted to total of Wikipedia's (2018) estimated NZ population 4,900,000

Of course, it would be a matter of contention as to what the economy can bear. The flat tax rate could be set to 60% (which might approximate the highest income tax rate in Finland) but would amount to an effective tax rate of 52.8% on $250,000 and 30% on $60,000. However, it is likely that less difficult provisions would initially prevail.

In Table 4 below the figure of more than 1 million people having no other income beyond a UBI of $18,000 is probably larger than in reality. Of course it is intended to cover those who would otherwise be offered unemployment benefits, sickness benefits, supported living payments, sole parent support, ACC, or some other working for families arrangements. The idea would be to make the UBI directly payable to everyone above the entitlement age, and consequently removing all the current variety of discriminating categories for transfer payments. The idea is to eliminate the acrimony and dissension that arises when bureaucracies have to be involved in deciding whether a particular payment is merited, or the conditions demanded of a suppliant for a payment have been met. Nor would the ACC be responsible for the salary of those out of work because of an accident. Instead of being paid 80% of previous salaries they would simply receive the UBI. ACC would still administer whatever lump sums are just. But people faced with the prospect of one day being paid no more than the UBI would find common cause ensuring that any UBI payment is fairly paid up to an amount sufficient to get by.

Table 4. Direct cost of universal income offered at $18,000 to three groups

Population groups	Numbers	$ Millions
Unproductive youth (.25 * 654,329 up to age 24yrs)	163,582	$2,945
Unemployed (5.8% of 2,655,000 labour force)	153,990	$2,772
Elderly	747,373	$13,453
Generously estimated annual total		**$19,170**

Source: Numbers from CIA (2018) adjusted in part to the totals from Wikipedia's (2018) estimated NZ population 4,900,000

On the figures which the TWG offer from Treasury NZ (Tax Working Group. (2018), p. 25, Figure 6) the NZ Super costs $13.7 billion while further social security demands nearly $11.6 billion. So the calculation here of a little more than $19 billion is considerably less than the current figure of $25 billion required for social security and welfare.

Table 5 from the Tax Working Group paper p. 25

	$ Millions	% Gov. expenses
Social security and welfare	**$25,294**	33.1%
NZ Super	13,700	17.9%
Soc security less NZ Super	11,594	15.2%

Here there is leeway for $6 billion further welfare payments being the difference from the figures in TWG's figure 6. This $6b could make for more than 400,000 payments of $14,000. Perhaps the difference might be devoted to making up for loss of tax from other salary income once the UBI is offered. Left aside here is what the economy can stand, what the rates should be, or what other welfare provisions need making. Actually raising the rate of GST to 17.5% would bring in a further $3.2b to the government's revenues and matching some other OECD countries with a 20% rate would do even more. Of course, the GST is regressive, falling harder on those with lower incomes. Nevertheless, the current broad-based approach is efficient. The offset in the elimination of poverty would be to offer higher values of UBI accompanied by a higher rate for taxing personal income. With a higher GST rating those receiving only a basic UBI would be returning a considerably higher portion of their income which has been transferred to them to the government's revenue through the GST since they would no doubt be spending all their income on necessities. All in all, debates about levels in a UBI would alter our notions of fairness. Matters of fairness are always contentious as Harris (2010, p. 67) says:

> We will not agree about fairness in the same way that we will not agree about morality, good or bad. But this is true in all fields of knowledge.
>
> Total uniformity in the moral sphere—either interpersonally or intrapersonally—may be hopeless. So what? This is precisely the lack of closure we face in all areas of human knowledge. (Harris, 2010, p. 67)

But would a UBI prove sufficient to eliminate poverty in New Zealand? It is considerably less than the $450 a week ($23,400 a year) before tax that a single elderly person might be currently awarded. For a person living alone who had to pay $500 a week rent then $18,000 is going to fall considerably short of the $26,000 required for rent alone. However, if there were a provision of shared accommodation say six people sharing a form of accommodation for which they combined to pay $800 a week rent then there would be $41,600 annually for rent and a modest, if not comfortable existence, from the $66,400 (about $11,000 each) left from their combined UBIs.

For a household where there is a couple with two adult children and no income beyond the IRD transfer then an $18,000 UBI might be a stretch. The government may have more demands to accommodate those failing to profit from changing conditions as New Zealand faces a growing gig economy, greater mobility in labour, and perhaps further threats to employment prospects from automation technologies. In reply to such demands the government may need to respond by building more hostel accommodation and might consider subsidising communal living arrangements. But the aim should be to create a UBI sufficient to allow even the most financially disadvantaged some measure of choice in their living arrangements.

Hence recommendation 1.

Recommendation 1
Set progressive income tax policy which includes the possibility of some form of guaranteed basic income involving a measure of **negative income tax** favouring the less advantaged.

Supplementary Provision for Retirement

In New Zealand there is considerable disagreement about providing for retirement. Some say continue with a pay as you go (PAYG) scheme. Others, including Douglas and MacCulloch, suggest that some form of savings in a save as you go (SAYG) arrangement is preferable. As Michael Littlewood has long pointed out the outcome of any grant scheme comes from the wealth of the economy which exists when the grants are being paid out so any savings will amount to nothing if an economy tanks. Now, Andrew Coleman from the Treasury has been quoted by Susan Edmunds in the *Sunday Star Times*:

> "We're currently paying $13b a year [for pensions]. If we had a system of SAYG for the last 40 years, the current taxpayers would be paying in $6.55b for exactly the same pensions. That's really big numbers." (Coleman in Edmunds, 2018, p D6)

This is all well and good but the risks do not go away. We saw the previous government suspend payments into the Cullen Fund and should some crisis arise, as it almost certainly will, the amount in the fund might be raided by some future government to overcome that unplanned for contingency. A preferred way to overcome the risk of a raid on the Cullen Fund would be to convert that fund into individual accounts to be administered in the manner of Kiwi-Saver accounts. The Government Superannuation Fund Authority appears to have considerable experience and success in administering individual funds for its members so there should be little difficulty with a similar Authority administering a more widely universal scheme. In its first steps the individual accounts could be set up instituted for all qualifying adults other than the current elderly. The current $34.5billion in the Cullen Fund could be distributed among roughly the individually instituted savings accounts of 3.2 million individuals all those from 15 years of age but below the current retirement age. Any Kiwi-Saver accounts owned by individuals in the cohort given such accounts could be added to that individual's account. People without a Kiwisaver account would simply get a kick-start to their account from their share of the distributed Cullen fund. The government could then add to those managed funds at the rate as the Labour government once did to the Cullen fund. But a different approach might be to encourage current voluntary contributions in the manner of current Kiwi-Saver schemes from individual earnings. Douglas and MacCulloch (2016) gave considerable thought to compulsory savings accounts. In addition to individual retirement savings accounts they, however, were advocating for saving to individual risk and health accounts as well. They originally wrote:

> The funds from the above tax cuts on incomes up to $50,000 for single tax-payers (and up to $65,000 for one-income families with dependent children) go directly into compulsory savings accounts for all employed workers. They are supplemented by an individual's own, and their employer's, contributions. Single tax-payers contribute 5% of earned income up to $50,000 (or up to $65,000 for one-income families with children). Their employer pays another 12½% of income up to $50,000. These contributions add up to total compulsory savings of $17,500 per year for those earning $50,000 or more (and $22,750 for a one-income family with children on $65,000 or more). (Douglas & MacCulloch, 2016, pp. 18-19)

Their first sentence in that piece should probably read "$6,125 from taxes gathered goes into each individual account of persons with 'incomes up to $50,000 for single tax-payers (and up to $65,000 for one-income families with dependent children) go directly into compulsory savings accounts for all employed workers".

However, my recommendation here would be for something less complicated. For although they might be given different names any compulsory sequestering of earnings is nothing more than a differently arranged tax. MacCulloch does suggest, in a recent 2018 opinion piece in the *NZ Herald* that for those at the bottom of the wealth ladder "the Cullen tax review [will not] solve much". He suggests that every Kiwi should have an individual savings account and "funding of the savings accounts would come from existing tax revenues". The savings account he has in mind still has three parts (35% to super, 45% to health and 20% to risk cover). He goes on to write that "there should be no personal income tax until individuals and families can provide for themselves". As a consequence the individual savings accounts:

"would enable each person to build between $500,000 and $1 million of wealth over a 40-45 year working life. An income of over $30,000 per annum during retirement would become available, on top of the pension." (MacCulloch, 2018, p. A18)

Essentially, Douglas and MacCulloch were for extending their suggested flat tax by 12.25% and also added that employers would be paying 12.5% to the individual savings account of their employees. But to impose a further 12.25% tax on employers seems somewhat extreme. Rather, a progressive company tax, depending on a company's number of employees and the size of its profit, might be better for growing business activity. Setting a "graduated" company tax rate where, at the low end, smaller firms might pay as little as 10% could stimulate business competition. Such an approach might prove better than instituting the complications which Douglas and MacCulloch suggest. As a consequence employers would have less to moan about whenever the minimum wage is set higher. Furthermore, they could be encouraged to improve their employees' situations through more attractive wages. So I put adding to employers' contributions aside and simply suggest a further 5%, for retirement savings, added to the 45% flat income tax. So this gives us Table 6 which incorporates this adjustment to Table 2.

Table 6 Calculation of flat (45% + 5%individual savings) tax rate on income. with $18,000 UBI added

Personal income	Personal income – (45%+5%) tax	Taxed income + UBI	Effective tax rate	IRD gains/gives	Gain to indiv's Savings
$30,000	$15,000	$33,000	-1.00%	-$4,500	$1,500
$60,000	$30,000	$48,000	22.0%	$9,000	$3,000
$250,000	$125,000	$143,000	42.8%	$94,500	$12,500

In the unlikely event of a constant income of $30,000 over 40 years a person's $1,500 individual saving of $1,500 with annual interest rate of 3% would accumulate to over $116,000. If savings accumulated over 50 years the final total would be over $174,000 This is somewhat indicative of how at a constantly high rate of compulsory savings individual accounts might accumulate to supplement a UBI in retirement.

Hence I suggest a compulsory system for accumulating a portion of income tax into an individual's retirement savings accounts.

Recommendation 2

Convert the Cullen Fund into a scheme of **individual retirement accounts** into which compulsory contributions are added. These would be supervised centrally in the manner of an individual Kiwi-Saver fund coupled with the control of the Cullen Fund.

A Wealth Tax

The conditions set for the TWG are that taxpayers' family homes should be exempt of taxes, should any asset or wealth taxes be introduced. Perhaps citizens need not fear taxes on their family homes. They simply need reminding that rates are, in every instance, levied on a landowner's holdings and in some cities, districts, or regions the rate is levied on the land's improvements in addition to the land on which they sit: i.e. full capital value. Most ratepayers can manage the annual imposts which might usually run somewhere between 0.1% to 1.4% of an asset's value.

So we currently have asset taxes at the local government level and there could be mechanisms through the registration of land ownership to assess one category of assets. Cars and most transport vehicles (other than bicycles and electric bicycles), of course, are registered. The registration of other assets, such as yachts (registered for racing) and power boats (registered in association with trailers in some parts of the country), might be a bit patchy.

The question is whether we should have any asset taxes and how much capital and in what form should taxes of that capital take shape. One view of those questions has been offered in 2014 by Nightingale who wrote in a *NZ Herald* piece that instituting a capital gains tax might do little but create problems. It was he thought, unlikely to add much to the Government's coffers, or might even create a largesse which the government would be in a quandary to employ:

> The estimated annual revenue from a capital gains tax that exempts the family home could add around $2 billion to the Government's coffers — although it may take 10 years to reach that point. What will governments do with this extra revenue? Will it be used as an opportunity to reduce personal income and company taxes to stimulate economic growth? Or do we risk it funding poor quality spending that will only impose greater compliance costs and tax burdens for little gain? (Nightingale, 2014)

However, a little earlier a different commentator had pointed out that the aim of a capital gains tax need not necessarily be about raising more tax, rather it might be considered as a Pigouvian tax, and he made no show about exempting the family dwelling:

> The point of a capital gains tax need not be the raising of additional revenue; to the extent that it does increase the tax take, this could be offset by a corresponding reduction in the tax take elsewhere. The aim of a capital gains tax (which is, incidentally, a common feature of most regimes overseas) would be, in other words, to shift the tax burden rather than raise it, and to shift it to where it would be most effective in changing behaviours in areas like housing investment that are currently stoking inflation. (Gould, 2008, p. 118)

And the TWG takes the same position:

> Capital assets are owned disproportionately by higher income households and so introducing a capital gains tax would make the tax system more progressive. A capital gains tax would allow for more government spending, or cutting of other taxes. (2018, p. 48)

Then the TWG continue asking questions about certain issues that can arise: when in time should a gain be taxed; and what ruses might an owner of capital employ to delay any capital tax payments? But a capital gains tax — even one which considered all housing —might not be instituted to increase the tax take. Rather it could be targeted to modify behaviour, with the aim of directing investment into productive endeavours rather than into real estate.

Instituting a wealth tax would be another area where increasing the tax take is less important than improving social arrangements and perceptions. The path to this would demand the sharing of more bank information with the Inland Revenue. This is not an easy matter and to reach such an ideal a number of hurdles might need to be removed. Piketty (2004) points out that France has had problems because of its difficulties in securing information from banks. As a result that country's wealth tax has run into difficulties with too many loopholes contributing to inefficient collection.

But without a wealth tax inequality will grow:

> [I]f the top thousandth enjoy a 6 percent rate of return on their wealth, while average global wealth grows at only 2 percent a year, then after thirty years the top thousandth's share of global capital will have more than tripled. The top thousandth would then own 60 percent of global wealth, which is hard to imagine in the framework of existing political institutions unless there is a particularly effective system of repression or an extremely powerful apparatus of persuasion, or perhaps both. Even if the top thousandth's capital returned only 4 percent a year, their share would still practically double in thirty years to nearly 40 percent. Once again, the force for divergence at the top of the wealth hierarchy would win out over the global forces of catch-up and convergence, so that the shares of the top decile and centile would increase significantly, with a large upward redistribution from the middle and upper-middle classes to the very rich. Such an impoverishment of the middle class would very likely trigger a violent political reaction. (Piketty 2014, p. 439)

Wealth tax is not merely robbing the rich for only some of the wealth accumulated by the elites has been hard earned. The return on capital in quite a large number of cases comes from other sources: "[not just] true entrepreneurial labor (an absolutely indispensable force for economic development), [but also] pure luck (one happens at the right moment to buy a promising asset at a good price), and outright theft." (Piketty 2014, p. 446)

Piketty went on to argue a case for cooperation across the whole European community. He estimated the gross amount of capital across the whole community was five times its GDP. He rejected property taxes alone but suggested "the property tax rate is frequently just 0.5–1 percent of the value of real estate, or a tenth to a quarter of the rental value of the property (assuming an average rental return of 4 percent a year)" (p. 528). He suggested a progressive tax applying only to the top 2.5 percent of the population which would bring in revenues close to 2 percent of the community's GDP. To do that his wealth tax would not start for wealth below 1 million euros but would levy "1 percent between 1 and 5 million euros, and 2 percent above 5 million euros." One of Piketty's main points is that in order to collect the wealth tax banking information must be shared at least with a government's revenue collectors. .

> But without automatic sharing of bank information both inside and outside EU territory (starting with Switzerland among nonmember states) the risks of evasion would be very high. This partly explains why countries that have adopted a wealth tax (such as France, which employs a tax schedule similar to the one I am proposing) generally allow numerous exemptions, especially for "business assets" and, in practice, f Suppose that bank information is automatically shared and the tax authorities have accurate assessments of who owns what, which may happen some day. What would then be the ideal tax schedule? As usual, there is no mathematical formula for answering this question, which is a matter for democratic deliberation. It would make sense to tax net wealth below 200,000 euros at 0.1 percent and net wealth between 200,000 and 1 million euros at 0.5 percent. This would replace the property tax, which in most countries is tantamount to a wealth tax on the propertied middle class. The new system would be both more just and more efficient, because it targets all assets (not only real estate) and relies on transparent data and market values net of mortgage debt. To a large extent a tax of this sort could be readily implemented by individual countries acting alone. (2004, p. 529)

Piketty outlines his utopian idea of a global tax on wealth. Such a tax he suggested would have two useful effects. The ultimate effect would be to halt the inevitable concentration of wealth among elites which is the result currently favoured by national regimes. And the second effect would be that the path towards that utopian ideal would demand transparent universal public recording and the reporting of an individuals' assets and wealth.

> National governments, international organizations, and statistical offices around the world would at last be able to produce reliable data about the evolution of global wealth. . . The benefit to democracy would be considerable: it is very difficult to have a rational debate about the great challenges facing the world today—the future of the social state, the cost of the transition to new sources of energy, state-building in the developing world, and so on—because the global distribution of wealth remains so opaque. (2014, p. 518)

Piketty's point is that "truly democratic debate cannot proceed without reliable statistics." This is true in so many areas. And it is a reason suggesting that New Zealand should play a part working towards Piketty's utopian ideal. After all, the country is restricted in the path to a good enough government when its law makers (not to mention its citizens) lack information. Such a wealth tax would, as Piketty suggests, apply only to the wealthiest (he had the top 2.5% in mind) in the nation. So a wealth tax, progressive but commencing above a high level of wealth, would be additional to any general flat tax and UBI arrangements. Here then is our third recommendation:

Recommendation 3

A **wealth tax** recommendation of two parts:

- **a** Set an asset and wealth tax policy that strikes a correct balance between encouraging national economic growth while restricting the **concentration of wealth in capital assets** confined to the lockers of an economic elite.
- **b** Such an asset and wealth tax, which would also take account of capital gains: it would require and improve **transparency,** so that **economic inequalities would be reduced**; and it would recognize greater **fairness** between individuals, groups and generations.

Improving democracy and eliminating local body rates

In a small country like New Zealand there is little real advantage to citizens with the division of the country into small local fiefdoms. To date the country has eliminated quite a raft of outcrops of locally elected bodies. Martin has described a little of the history:

> The formal structure of local government, including the health and education sectors, changed little in the 110 years following the abolition of the provinces in 1876. The anachronisms were highly visible: a pocket borough of Newmarket (among some sixty local authorities in the local Auckland region); five hospital boards in Otago (with hospitals

> said to be one coach road apart); a plethora of *ad hoc* authorities rabbit boards, catchment boards, harbour boards etc. The multiplication of *ad hoc* authorities underlines the point. Increasingly, central government by-passed the existing organs of local government and established new agencies to carry out new functions; (1991, p. 271)

Martin went on to describe the reforms which saw the elimination of many of these *ad hoc* authorities. He then considered whether the reforms might continue, for there were people in New Zealand communities who were "unpersuaded of the virtues of 'participation' or 'power sharing' in a country of little more than three million people" (p. 292) and added "there is no universally held understanding of the relationship between central government and statutory authorities at the local and regional level" (p. 292). Bush (1990) was another who considered the local government reforms of the 1980s, and went on to point out that politicians, elected at local level, were hoping for new sources of revenue beyond rates. Even so he thought those reforms would serve the country to the turn of the century but "[i]n the nature of things [the arrangements of local government] will inevitably in its own turn be transformed and eventually superseded." (p. 248)

Now may well be the time for further transformation. Education is largely a central administration. There seems to have been little advantage to education administration in the election of school boards, which were largely a return to the 19th century situation. Some of the nonsense concerning definitions of governance and the boundaries imposed around governors has abated somewhat. It is hard to see how health administration is assisted through the operation of 20 district health boards. The funds for public education and for public health health are not collected at the local level. And the rating system for cities, districts and the regions which overlap them are seldom sufficient to meet local demands. Furthermore, rates vary unfairly. Most smaller districts are unable to meet the economies of scale sufficient to satisfy their area's fundamental needs. Even a prosperous regional city will have considerably higher rates than a large metropolitan area like Auckland. Take the case of a regional city and the regional council surrounding it asking a landowner to pay a total of $2786 on land valued at $235,000, a levy of about 1.2% of the asset's value. A decade later that landowner is rated $2,662 on land valued at $880,000 where the levy is only 0.3% of that asset's value. Counts like this reveal there is little horizontal fairness throughout the country in the rating systems on land assets.

But the Health vote is still mediated by various district health boards to no great advantage. Local body elections and their democratic outcomes are frequently little more than a dress rehearsal — or a retirement scheme — for national politicians. Presently one local authority, Auckland city, covers the aspirations of about one third of the country's population. From time to time more and more amalgamations of local bodies are suggested, but these are usually resisted by incumbent local body politicians and their administrative employees. The result is that residents in smaller local body districts have difficulty meeting rate rises sufficient for some of their most basic necessities: adequate sewerage, infrastructure reticulation, and have little space to consider any larger issues that good enough government might demand.

As we see health and education are largely centralized with some difficulties imposed by some local boards. Large issues such as resource management, climate change, as well as infrastructure matters such as transport, water reticulation, energy generation, housing and the elimination of waste are hardly well coordinated across the country.

So the current tax of land and capital variously carried out across the country could be given over to a more uniform application while more co-ordinated management centres around the country could be financed from the central tax take. The country could hope there might be savings with administrative rationalization as well as the savings of local body election costs.

So here is a fourth recommendation.

Recommendation 4

Recognize the opportunities of data processing technologies to eliminate layers of local government and so **centralize democratic functions** to adequately and fairly deal with health (obesity) and education, resource management issues, climate change (greenhouse gas emissions), and infrastructure matters such as transport, water reticulation, energy generation, housing and the elimination of waste (pollution).

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