



Economic Scene Setting

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Horopaki | Context

In order to begin to explore our economy, it helps to have a shared understanding of key concepts, frames of reference and the major issues we face. This paper seeks to help the reader understand and consider some of the bigger concepts relating to our economy, and acts as a start point for further whakaaro moving forward.

Aotearoa, like other nations is facing ongoing and impending challenges. These challenges include persistent poverty, climate change and disrupted supply chains due to both COVID-19 and international conflicts. As with all economic challenges, these are interlinked and have the potential to compound one another – as well as feeding into other challenges which we face as a nation. The first step in organising an equitable, environmentally conscious economy in Aotearoa is co-governance and a significant, assured voice for all people at the decision-making table. Indigenous perspectives contain crucial knowledge of sustainability and community which neoliberal policy and business practice does not. Te Tiriti obligations, Mātauranga Māori, and their relationship with capital are integral to the discussion around equitable distribution of the means to thrive in Aotearoa, as traditional perspectives of ownership are invisible within the current system. These perspectives are also significant in that environmental sustainability is as important as economic sustainability.

He Aha | The Why

Before creating an environment which fosters change, there must be a reason – why do we need to change our economy?

What are the forces within it which are causing and perpetuating harm? Simple knowledge of human wellbeing (backed up by scientific analysis) demonstrates that access to resources such as food, water and shelter allows for a better life¹. Ideally, life begins with good pre-

¹ Gibson, K., Abraham, Q., Asher, I., Black, R., Turner, N., Waitoki, W., & McMillan, N. (2017). Child poverty and mental health: A literature review (Commissioned for New Zealand Psychological Society and Child Poverty Action Group). Available at: https://researchcommons.waikato.ac.nz/bitstream/handle/10289/11484/170516%20CPAGChildPovertyandMentalHealthreport-CS6_WEB.pdf?sequence=2&isAllowed=y

natal nutrition and runs all the way through to a comfortable later-life period close to relatives and friends, with a meaningful and rewarding life in between. In the current world, resources are accessed through the proxy of money – each resource is worth a particular quantity of this money, even the time we spend creating money for others through work.

Since the 1980s in Aotearoa, we have seen an accumulation of wealth by the few, and a rapidly widening equity gap between citizens. In many cases, this has occurred largely through the preferentially taxed and asset rich housing market. With a growing population, the combination of accumulated wealth and limited taxation has resulted in stagnation in Central Government investment in social causes and infrastructure. There is now an entrenched system relating to viewing housing as a market, rather than a human right. This is the end result of commodification of resource and free-market ideology, over the needs and rights of citizens.

Recent data shows that **20% of Aotearoa's households hold over 69% of the available capital** – and a staggering **10% of individuals hold 50% of the wealth**². In simple terms – rich people have all the money. And its growing.

Te Patai o te Ao | The Globalisation Question

In order to sustain the current standard of living and access to goods currently available (to those who have the money), Aotearoa has no choice but to continue with some form of capitalism – at least when interacting with the world at large. However, goods which can be produced locally with an acceptable level of environmental impact may reduce the prevalence of outsourcing and form the basis for new industries in Aotearoa.

A circular economy is one which produces in order to reuse – in contrast to our current system which produces in far-away places, transports, uses once and discards. A more circular economy would involve lower food waste, lower average mileage on goods and greater regulatory control over the production of goods – including the possibility of making goods to reuse them.

Despite the obvious benefits afforded by a global economy, decreased visibility of where the products we consume come from and how they are produced creates a paradox. While we are

² Distribution of wealth across New Zealand households remains unchanged between 2015 and 2021 (2021) Stats NZ. <https://www.stats.govt.nz/news/distribution-of-wealth-across-new-zealand-households-remains-unchanged-between-2015-and-2021/#:~:text=In%20terms%20of%20assets%20and,11%20percent%20of%20total%20liabilities.>

better off *personally* consuming cheap goods from other areas of the world are low, as a *nation* we end up increasing the miles on our goods and potentially risking exploiting workers in other nations. On the other hand, if these workers are paid more and prices rise accordingly, we often can't find or even don't have capability for an equivalent local alternative. There is of course also the issue of environmental impacts.

The key point in economic reform then, is to ensure that the economy works for everyone and to begin a transition to a more circular and regenerative economy. To continue the import and export of the essentials on the international scale but help people and the environment on a local scale will involve significant education and political changes but will provide important benefits in terms of the future of the natural world.

Problems exist which require small changes over time to overcome. These changes ideally would have started decades ago. While the focus must be on the future of the economy and which form it will take, there is a lesson of proactivity to be learned by the voting public.

Restrictions on multinational corporations are necessary to reduce overseas labour and production and the crowding out of smaller local companies. Multinational corporations contribute to income inequality³, however restricting their ability to operate in New Zealand would come at the expense of those who use their cheaper goods and services. What then becomes the solution is to make local, regenerative, and ecologically sound industry accessible and affordable, while at the same time reducing the reliance on goods sourced from elsewhere where there is little to no control over working conditions and environmental impacts of the production process.

Beginning at the source of all commerce, the primary sector must be regulated to ensure that regenerative agriculture and horticulture are at its core. While this will protect the overseas market for New Zealand made goods through "green" branding, the inevitable consequence of this is lower emissions and less pollution. The primary sector produces the majority of New Zealand's export profits, something which is unusual in developed economies. Traditional economics traces the progression of an economy through stages, with agriculture being one of the first stages, however the fact that Aotearoa continues to rely heavily upon this sector speaks both to a non-traditional approach to economic development and an intimate knowledge of the unique whenua we reside in.

³Taylor, K and Driffield, N. Wage inequality and the role of multinationals: evidence from UK panel data (2005). [Labour Economics 12 \(2\)](https://bit.ly/3dChOB1), April 2005, Pages 223-249 Accessible at: <https://bit.ly/3dChOB1>

Māori are spearheading regenerative agriculture, and central government should follow their lead and example in creating regulations for each sub-sector.⁴

Where Aotearoa lacks in skilled labour, the shortfall is often made up through migration. Skilled professionals often leave for Australia in a phenomenon known as the “brain drain”, where higher wages and promising career opportunities as well as worker protections on a par with their local counterparts are offered. As a result of this, the immigration system is increasingly discriminatory, designed to fill gaps in the economy rather than to build an inclusive society.

The approach fails to consider the factors which contribute to the “brain drain”, and instead puts a Band-Aid on a gaping wound – while we may not have a fix to put New Zealand on a par with Australia in terms of wages, we can provide sufficient education and affordable housing for those who wish to stay here and contribute to our society such as nurses, doctors and engineers.

Ōhunga nui | Macroeconomics

Central government planned economies are difficult at best without negative results, due to the endless number of factors (helpful and not) which central government cannot account for. These factors also create challenge due to a lack of flexibility and agility related to the size of central governments. Firms can collapse, but entire economies must not; companies can be agile and pivot, it’s much harder for nations to do so. Government must instead set the rules, regulations and importantly aspirations which ensure fairness and competitiveness within the marketplace and introduce the entities which limit some of the negative impacts of an uncontrolled market. An example of such an entity is the independent Reserve Bank, an entity with a restricted set of responsibilities to manage market forces such as inflation and interest rates.

Alongside market fairness controls, government must provide the means for a basic standard of living, paid for through progressive tax revenue. The omission of capital gains from taxation is a loophole through which money is sequestered and creates profit despite not being on the market, e.g., a property which is bought for the simple purpose of sitting and accruing value. These properties often make passive income for the owners - as rental properties which are becoming more unaffordable each year and Airbnbs which can sit empty for long periods but make higher profit margins than rentals. Effective frameworks around these avenues of income and their taxation

⁴Murphy, S. Government and Ngāi Tahu to work together on regenerative farming project, (2022). Accessible at: <https://www.rnz.co.nz/news/country/472289/government-and-ngai-tahu-to-work-together-on-regenerative-farming-project>

are necessary to enable both government expenditure to solve inequal access to public services and to ensure effective income inequality is minimised.

Tāke | Taxation

Our tax system is generally viewed as progressive and simple, however there are inconsistencies and piecemeal snippets of legislation creating loopholes, intentional or otherwise. These loopholes ensure that some sectors, businesses, and high earning individuals are able to pay minimal tax on their incomes – while at the same time placing the blame for inflation on rising wages.

While the progressive nature and broad base of New Zealand’s taxation system is important and provides significant central government revenue, it does not cover all bases and is not equitable. As New Zealand is in the midst of the largest wealth transfer in our economic history, those who are on the receiving end of this transfer are largely unscathed, especially as inflation rises faster than governments can feasibly move tax brackets up.

As mentioned above, there are significant areas of income such as rent which are either incentivised through lax tax policies or simply not taxed enough, and those may be dealt with on either the local government level through targeted rates, or on the national level through land taxes or capital gains taxes. A true progressive taxation system would have significant and positive impacts on both the well-being and sustainability of our economy and the people who comprise it⁵.

Other options currently being publicly discussed include higher taxes for far higher incomes. We currently see this in the taxation of individuals, where our top tax (Earnings over \$180K annually) is 39%. However, the company tax rate remains 28%, irrespective of profit. The Green Party has recently released a discussion document¹⁶ questioning the equity of this, particularly in light of record profits being posted by Banks, Supermarkets, Tech, etc. Their suggestion would be for a windfall tax on materially large profits, to support fairer distribution of taxation across the base.

Tangata Whenua and Te Tiriti obligations

Widely considered to be the most important foundational document of Aotearoa, te Tiriti o Waitangi outlines obligations of the crown and the rights afforded to Māori therein. In keeping with te Tiriti o

⁵ Oishi, S., Schimmack, U., & Diener, E. (2012). Progressive Taxation and the Subjective Well-Being of Nations. *Psychological Science*, 23(1), 86–92. <https://doi.org/10.1177/0956797611420882>

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https://assets.nationbuilder.com/beachheroes/pages/16835/attachments/original/1666994726/Excess_Profit_s_-_October_2022.pdf?1666994726%22

Waitangi, Māori have the rights, privileges, and protections of British citizens. And yet, our economic world view remains completely westernised.

We will look to explore what an economic response that honours Mana Motuhake and Te Tiriti would look like in future pātai but acknowledge that current approaches have consistently and persistently failed Māori.

Ngā Roanga | Hindrances

It is important to recognise that radical policy change is often impossible within a democratic system (especially MMP) due to the Overton Window⁷ and its impacts on electability: There is only a certain degree of extreme or out of the norm policy which a voting public will risk.

While a more progressive system for taxation, equitable access to housing and more opportunities for Māori to participate and be upwardly mobile economically would be the ideal scenario – we can expect compromises to be made. These compromises often fall directly in the middle of voters' preferences, meaning that radical, paradigm shifting change is not always viable.

NZCCSS are committed to seeing a more equitable economy emerge and are actively seeking solutions. We look forward to sharing what we find with you in future iterations of these pātai/explainers.

Please send any queries, feedback, or ideas through to hamish@nzccss.org.nz

⁷ The Overton Window, (2022). Mackinac Centre for Public Policy. Available at: <https://www.mackinac.org/OvertonWindow>