Inquiry into how we can maintain economic growth while reducing the wealth gap

Recommendation
The Youth Parliament Economic Development, Science and Innovation Select Committee makes the following recommendations to the Government: • Systematically review the existing stock of regulations to identify any unnecessary barriers to increasing housing supply and amend these regulations where appropriate. • Investigate the desirability and feasibility of accelerating the Government's investment in building more social housing to increase the supply of housing for disadvantaged New Zealanders. • Implement policies which encourage people to move to the regions where there is not a housing crisis. • Ask the relevant government entity to review major regulatory frameworks, such as the occupational licencing regime and the Overseas Investment Act, to ensure that they remain relevant and do not unnecessarily prevent economic growth or reduce consumer choice. We recommend that the Government amend these regulations where appropriate. • Change procurement policies to require government entities to only engage companies that pay a living wage. • Inquire into the feasibility and desirability of requiring large businesses to pay a living wage. • Introduce compulsory financial literacy education in high schools. • Adjust the tax brackets and income tax rates to better reflect the current income distribution in New Zealand. • Ensure that the welfare system is appropriately targeted and provide incentives and support for individuals to work and strengthen their wellbeing.

About this report

The purpose of this report is to summarise our consideration of how the New Zealand Government can best maintain economic growth while reducing the wealth gap. We heard oral submissions from Dr Eric Crampton, a chief economist at the New Zealand Initiative and Marlon Drake from the Living Wage Movement Aotearoa New Zealand. We have identified changes that the Government could make to housing policy, regulatory systems, and wages to help achieve this goal.

The current approach to economic growth and inequality

Economic growth

New Zealand has experienced steady economic growth since 2012. Economic growth in New Zealand has been driven by inward migration (people moving into another area within New Zealand), growth in the tourism industry, higher export prices than import prices, and high levels of employment.

The wealth gap

New Zealand has high levels of wealth inequality, although this is not out of line with other developed countries. Today the wealthiest 10 percent of New Zealanders own nearly 20 percent of the countries net worth, while the poorest 50 percent of New Zealanders own less than 5 percent[1]. The wealth gap increased rapidly from 1980, it stabilised in the mid 1990s and has remained constant since then. Current policies in place to reduce inequality include progressive taxation, social services, and welfare.

Our response to the current approach

No matter what measure of inequality is used, it is undisputable that inequality and poverty exist in New Zealand. We consider that there is a role for Government in reducing inequality and material hardship.

The latest research from the OECD shows that the biggest cause of decreasing economic growth is the widening gap between the lower middle class and poor households and the rest of society[2]. At the same time, economic growth can improve people's overall prosperity and increase the average net worth of New Zealanders. Therefore, we believe economic growth and reducing inequality are interdependent. While economic growth is important for a healthy economy, we do not think economic growth should be pursued at the expense of people's wellbeing.

[1] Max Rashbrooke, Understanding inequality. http://www.inequality.org.nz/understand/wealth-and-new-zealand-great-divergence/.

[2] OECD, Focus on Inequality and Growth, December 2014. http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf.

Housing

New Zealand used to have the highest rates of home ownership in the world. However, the supply of housing in New Zealand has not grown at the same rate as the population has increased. This has inflated the cost of housing and made it unaffordable for many New Zealanders to buy a house[3]. Rising house prices have the biggest effect on low income earners because[4]:

- high house prices incentivise overcrowding, which can cause health problems
- high house prices mean there is less money left over for other necessities such as heating and food
- housing is a source of wealth.

We think that if housing is more affordable and accessible, wealth will be more evenly distributed because more New Zealanders will be able to purchase an asset. Affordable and accessible housing will also increase economic growth because people will have more disposable income to put back into the economy and people will be more productive if their quality of life is improved.

Recommendations

We make the following recommendations to the Government, which we believe would increase the housing supply, in turn minimising the negative effects of the housing crisis on inequality and economic growth:

- We recommend systematically reviewing the existing stock of regulations to identify any unnecessary barriers to increasing housing supply and amend these regulations where appropriate. We consider that council planning rules create barriers to increasing the housing supply by preventing towns and cities from growing up and out.
- We recommend investigating the desirability and feasibility of accelerating the Government's investment in building more social housing. This would increase the supply of affordable housing for disadvantaged New Zealanders who need the most support to improve their socioeconomic status.
- We recommend implementing policies which encourage people to move to the regions where there is not a housing crisis. This would decrease the number of people competing for houses in the city.

Regulatory Systems

Dr Crampton believes that ownership rules and regulations that prevent overseas investors and local entrepreneurs from opening businesses in New Zealand prevent competition, resulting in higher prices. We heard that higher prices can entrench inequality because they increase the cost of living, which affects poorer people more. On the other hand, Dr Crampton said increasing competition improves productivity and innovation which is essential for wage growth and, therefore, incomes.

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3 Guy Marriage, The ugly truth about our housing crisis. https://www.victoria.ac.nz/news/2017/09/the-ugly-truth-about-our-housing-crisis.

4 The New Zealand Initiative, The Inequality paradox, 2016. https://nzinitiative.org.nz/reports-and-media/reports/the-inequality-paradox/.

Recommendations

We are concerned that some of New Zealand's regulatory systems are no longer fit for purpose. We recommend that the relevant government entity review major regulatory frameworks, such as the occupational licensing regime and the Overseas Investment Act, to ensure that they remain relevant and do not unnecessarily prevent economic growth or reduce consumer choice. We recommend that the Government amend these regulations where appropriate. In addition to increasing economic growth, this could help reduce the cost of living, which would benefit poorer households.

Living wage

The living wage is $20.55 per hour[5]. This is the pay rate that the family centre social policy research unit has calculated as being high enough to maintain a normal standard of living. It is also a social movement for change that emphasises the importance of balancing GDP growth against wellbeing.

We heard that paying a living wage decreases the wealth gap because those on the lowest pay rates will have a higher income. Marlon Drake said a living wage could also increase economic growth because low paid workers will have some disposable income to invest back into the economy. Overseas evidence also shows that when employers pay a living wage, workers are happier and more productive. However, we acknowledge that a mandatory living wage would increase the cost of labour which may have a negative effect on small to medium employers and could decrease the likelihood of entrepreneurs starting new businesses.

Recommendations

We consider it important to transition towards New Zealand becoming a living wage nation. However, it is undesirable for this transition to negatively impact small to medium businesses. We believe that, in the appropriate circumstances, enforcing a living wage can both improve the wellbeing of New Zealanders and encourage economic growth. Therefore, we make the following recommendations to the Government:

- That it change its procurement policies to require government entities to only engage companies that pay a living wage.
- That it inquire into the feasibility and desirability of requiring large businesses to pay a living wage. We note that further work is required to determine what defines a large business for example revenue or number of employees.

Taxation

We acknowledge that there are a variety of perspectives about how the New Zealand tax system should operate, that taxation is integral to the Government's fiscal policy, and that taxation should support both income and wealth redistribution. We considered the progressivity of the current regime and the need to create strong incentives to get people into work. Therefore, we make the following recommendations:

[5] Living Wage Movement Aotearoa New Zealand Submission

- Introduce compulsory financial literacy education in high schools.
- Adjust the tax brackets and income tax rates to better reflect the current income distribution in New Zealand.
- Ensure that the welfare system is appropriately targeted and provide incentives and support for individuals to work and strengthen their wellbeing.

Appendix

Committee procedure

We met on 16 and 17 July 2019 to consider the inquiry. We received 4 submissions, and heard from Dr Eric Crampton and Marlon Drake.

Committee members

Shine Wu (Chairperson)
Melissa Bonilla Casanas
Kelly Ding
Anna Douglas
Raymond Feng
Lily Lewis
Matthew Penno
Charise Perez
Valentyn Santhara
Flynn Symonds
Tristan Taquet
Luke Wijohn

Shine Wu