

Review of New Zealand's Taxation System

Submission to the Tax Working Group by Wise Response Society Inc

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Thankyou for the opportunity to submit. The Society wishes to be heard on this issue if the opportunity is provided.

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1. Summary and List of Recommendations

Summary

1. The most significant recommendations that we make concern the need for humans to live **within the capacity of the Earth to support human life**. All countries, including New Zealand, are currently not doing this as is illustrated by such evidence from research about ecological footprints, limits to growth, planetary boundaries, and key resources such as liquid fuel for transport and water.
2. **Any tax system, to be able to prepare its citizens** for this future, needs to be established within this human-Earth framework. It is our submission that the current tax system is not well positioned to enable New Zealanders to care for the Earth rather than exploit it, to the detriment of its systems that enable us to live. We make a number of recommendations about policy objectives to deal with this.
3. This does not mean that **human-human relationships** are unimportant. The principle of equity is crucial because an inequitable society is not as prepared as

it could or should be to deal with ecological degradation - a house divided cannot stand. (There are also considerations of equity that stand in their own right.)

4. It is our submission that the **New Zealand tax system is unfair** (and inefficient) regarding the tax rate for low income earners compared to high earners; that there is considerable evasion of tax particularly by white collar criminals and multinationals; that the purchase and sale of land and properties is inequitable in that large capital gains are made by speculators and others; that GST is a regressive tax disadvantaging poorer people in our society; and that a tax system that focuses on income, rather than including the accumulation of wealth, needs correcting.
5. One of the fundamental purposes of **taxation is to raise adequate revenue** for the Government to carry out its responsibilities. Previous philosophies and policies based on the dominance of the market, with a minimal role for governments, has led to a deterioration of many essential services and left New Zealand very vulnerable. The Government should be able to find adequate funds through a sufficient tax take to avoid these failures.
6. We also recognise that a **tax system is but one of a number of tools** that is available for governments to act in the best interests of its citizens. In addition to collecting revenue for government to fund its functions, tax is a means of changing behaviour in accord with society's core norms.
7. While we at times make comment about specific taxes, we have focussed on the principles and policies that flow from these to **enhance the wellbeing of New Zealanders particularly on the long term** and on potential for Tax to change behaviour.

Key Recommendations of the Society

- i. the Tax Regime proposed for NZ forms a **coherent suite** with the other socio-economic management instruments at the Government's disposal.
- ii. all principles in paragraphs 18 and 19 be recognised as the **key principles** for the Tax Working Group.
- iii. the direct conflict between the demand for endless economic growth and earth's finite biophysical systems be accepted as a **baseline presupposition** and its implications be factored into this Tax enquiry.
- iv. taxation refocuses on maximising growth in **wellbeing and general resilience** over maximum economic growth, even if this implies the re-establishment of a more autonomous policy regime for NZ.
- v. where possible, NZ Tax supports the design of an economic pathway that complies with the remaining equitable per capita emissions budget to **stabilise the climate** at less than 2 degrees above preindustrial levels, but preferable closer to 1.5degrees.
- vi. tax rate be changed so **low income earners** should pay no or minimum tax, and **high earners** should pay more than the current rates.

- vii. the necessary steps be taken to resource and authorise the relevant Government agencies to significantly **reduce tax evasion**.
- viii. companies be **required to publicly report** on who the individuals are who own companies operating in NZ.
- ix. the **money creation function** for government projects and programmes and public goods should be in the hands of government. Stronger macro-prudential tools for the proper control of the private creation of money and credit should be implemented. WR suggests that the lessons that Germany can offer be investigated.
- x. **variable rates of GST be introduced** to enable zero rates for essential and healthy goods such as fresh food and vegetables, and higher rates on socially and environmentally harmful goods and services such as high sugar drinks.
- xi. the principle of a **wealth tax be adopted**.
- xii. the Government **rejects a minimalist role of government** as one based on an economic and organisational model that is outdated and inadequate, and that where there is evidence that the provision of adequate services needs a more realistic financial base through taxes and other sources, that these be provided.

2. Who is Wise Response?

- 8. Wise Response is a Dunedin-based but **New Zealand-wide, non-partisan Society**, launched in 2013, with the purpose of persuading the New Zealand Parliament, Government and New Zealand society in general, to confront and respond effectively to any confirmed threats arising from the question: *"As demand for growth exceeds earth's physical limits causing unprecedented risks, what knowledge and changes do we need to secure New Zealand's future well-being?"*
- 9. Our **Chairperson Sir Alan Mark** conducted a nation-wide tour that year with 11 public meetings from Auckland to Invercargill to explain the Society's purpose and strategy, and gain support. The Society has no formal membership beyond the 15 persons who formed the Society. But its strength is in the wide range of supporters who participate in online discussions around the "limits" theme, many being experts in their professional fields able to provide multidisciplinary input into our initiatives. Our Patron, is Sir Geoffrey Palmer QC.
- 10. In April 2014, we presented our 5,000 signature petition in front of Parliament, that recommended they undertake a Risk Assessment of New Zealand, in five subjects as follows:
 - i. **Financial security:** the risk of a sudden, deepening, or prolonged global financial crisis.
 - ii. **Energy and climate security:** the risk of continuing our heavy dependence on fossil fuels.

- iii. **Business continuity:** the risk exposure of all New Zealand business, including farming, to a lower carbon economy.
 - iv. **Ecological/Environmental security:** the risks associated with failing to genuinely protect both land-based and marine ecosystems and their natural processes.
 - v. **Genuine well-being:** the risk of persisting with a subsidised, debt-based economy, preoccupied with maximising consumption and GDP and increasing inequality.
11. The Appeal sought a commitment to a **quantitative, cross-party risk assessment** of how and exactly where New Zealand is exposed as a rational, integrated basis for planning a more secure future. The petition was referred to the Finance and Expenditure Select Committee, with a hearing in July 1, 2015. The majority response was negative, claiming Government was adequately addressing the issues of concern, but the three minority parties (Labour, NZ First, Greens) offered strong endorsement.
 12. Another significant initiative was to hold two meetings in Wellington with about 25 NGOs, to facilitate development of a Position Statement and Action Plan on climate change, under the name **Climate Consensus Coalition Aotearoa (CCCA)**. Given the political vacuum at the time, this was to propose a goal and process by which to develop a NZ Plan to give effect to the spirit and intent of the Paris Accord of Dec. 2015. The total of individuals and the membership of organisations which formally endorsed it numbered approximately 330,000 from about 100 organisations.
 13. In August, 2017 we made presentations of the CCCA Action Plan to MPs at Parliament, through **GLOBE-NZ members** (arranged and chaired by Dr Kennedy Graham) and an invited audience of all MPs in the Beehive Theatre.
 14. Our Society also makes regular **submission on a range of policy change** issues. Examples include the Emissions Trading Scheme, the Resource Legislation Amendment Bill, Regional Policy Statement of the Otago Regional Council (and mediation with Dr Royden Somerville QC and Will Anglin as Counsel) NZ Energy Efficiency and Conservation Strategy, the Productivity Commission, and most recently the Child Poverty Reduction Bill.
 15. In October 2014, members Sir Alan Mark and Prof Peter Barrett presented a **resolution to the Royal Society Fellows AGM**, which resulted in the Society producing and publishing two commissioned reports in 2016, on the Implications and the Mitigation of Climate Change in New Zealand.
 16. And in Jan. 2018, the Society organised a public meeting in Dunedin on “**Climate Change issues: from Bonn COP23 and beyond**”, Central and Local Government responses, addressed by the Hon James Shaw, Minister of Climate Change, Mr Dave Cull, President of Local Government NZ and Hon Clare Curran, MP for Dunedin South, with some 400 attendees

3. Role of Taxation

17. Governments have a number of tools that they can use to achieve their aims. Very broadly, they can regulate or use subsidies and taxes (carrot and stick). Taxes should be seen in this wider context, and at times, part of a wider set of initiatives. Tax revenue can be used for the payment:
- i. **of regulatory services** (e.g. judicial system, police and security forces),
 - ii. **of certain goods and services** that are not adequately provided privately (eg libraries, hospitals, schools),
 - iii. to ensure that **people at risk** are cared for (e.g. young and elderly people, disabled and injured people, mentally ill people),
 - iv. to provide incentives for **business behaviour and development** (eg Research and Development),
 - v. of **changing behaviour** that contradicts society's core values, essential needs and concerns.

WR recommend that the Tax Regime proposed for NZ forms a coherent suite with the other socio - economic management instruments at the Government's disposal.

4. Taxation Principles

18. Adam Smith's four canons of taxation are
- i. **Equity:** The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. (Horizontal and vertical equity.)
 - ii. **Certainty:** The tax which each individual is bound to pay, ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.
 - iii. **Convenience:** Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.
 - iv. **Efficiency:** Every tax ought to be contrived, as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State.

19. WR accepts these principles but would add¹

¹ Numbers v-vii based on Russell D and Baucher T., 2017, Taxation and Fairness, BWB Texts)

v. Meeting revenue needs of government

- vi. **Visibility:** People should understand how much tax they pay, and what their taxes are spent on.
- vii. **Coherence:** the tax system should make sense as a whole.
- viii. **Changing behaviour** that that contradicts society's core values and sustainability (e.g. cigarette smoking, carbon tax).

20. It needs to be recognised that raising revenue by tax and other means and deploying tax revenues is just one of a portfolio of public policy instruments and that as well as “nudging” behaviour with incentives and disincentives, this can be done with such tools as establishing social norms, implementation of regulation, use of liability instruments, and risk analysis.

WR recommends that all these principles be recognised as the key principles for the Tax Working Group.

5. Conceptual Foci and Lenses

21. Taking into account the above principles and the material presented in Sections 6-8 below, we bring the following conceptual foci and lenses to this submission:

- 21.1. **Biophysical limits, resilience, and a long term perspective;**
- 21.2. **Environmental, economic, and social purposes and capitals;**
- 21.3. **matching taxation instruments with public purposes** – e.g. provision of public goods and services; of merit goods, economic efficiency goals and full-cost pricing to redirect and influence private decision making;
- 21.4. **encouraging investment in the long term** biophysical and ecological health of the environment and society via public and private investment;
- 21.5. **raising revenues for regulation** and other measures;
- 21.6. **taxation and expenditure for transfers** and income and wealth redistribution;
- 21.7. **providing for the future;**
- 21.8. **taking responsibility** but sharing the burdens within and between generations.

6. Earth's stresses and constraints

22. These are perceived limits, or '**Overshoot**' of **ecological systems capacity**. For example, the Paris accord is an example of acknowledgment of an atmospheric limit. For each point below, refer to the appendices for illustrations of each concept:

- 22.1. **Ecological footprint** - an area of land required to sustain each person (Figure 1) - changes based on lifestyle demands on resources, etc.

- 22.2. Limits to exponential growth - reassessed (Figure 2) - an influential and controversial study that has stood the test of time.
- 22.3. **Planetary boundaries** already exceeded (Figure 3) - the concept that there are multiple thresholds, which science has described, that we must not exceed. Also the evidence that we are exceeding several of them.
- i. climate warming and climate disruption,
 - ii. land use change and loss of biodiversity/species extinction²,
 - iii. loss of biosphere integrity/function and
 - iv. an overload in the nitrogen and phosphorus biogeochemical cycles (depletion issues and toxicity).
- 22.4. **Resource depletion** e.g. EROEI (Figure 4) - the physical reality that resources, particularly liquid fuel for transport, is finite and should be a core consideration alongside GHG emissions. When oil was first discovered, the EROEI in producing it was over 100/1, but Murphy (2013) estimates that by 2000 the global figure was about 30, and a decade later the average was around 17. Modern society requires an EROEI of about 10-12 to provide the public services we have come to take for granted - schools, healthcare etc.
- 22.5. Thus, the primary question for planning tax (and all other government instruments) is how can we be best prepared for a net decrease in energy flow through our society, be it driven by scarcity or pollution?³
- 22.6. Need for ever **greater complexity** to maintain increasingly sophisticated social and economic processes. As the globalised economy has become more complex and ever faster, the ability of the real economy to pick up and globally transmit supply-chain failure, and then contagion, has become greater and potentially more devastating in its impacts. In a more complex and interdependent economy, fewer failures are required to transmit cascading failure through socio-economic systems. A credit market can not be sustained in a contracting economy⁴.
- 22.7. Loss of quantity and quality of **capital stock**. We know about freshwater in NZ. Another example is soil erosion. NZ has a disproportionately large sediment footprint, losing 192 million tonnes of soil into rivers and the sea every year or 1.7 per cent to global sediment loss, despite comprising only 0.2 per cent of the global land area⁵. In the USA average **loss of topsoil** under conventional cultivation is 1.54mm/year - that loses 200 - 300mm in

² Intergovernmental Science-Policy Platform on [Biodiversity](#) and Ecosystem Services (IPBES) 2018 Biodiversity Report

³ Korowicz D, 2010, Tipping Point: Near-Term Systemic Implications of a Peak in Global Oil Production

⁴ Korowicz D, 2012, Trade-Off Financial System Supply-Chain Cross-Contagion: a study in global systemic collapse.

⁵ Ministry for the Environment and Statistics NZ 2018 Our Land Report

around 200 years equivalent to the A horizon on many soils⁶. Many of these same soils have also lost around 50% of their total organic matter (Figure 5). The UK is just formally requiring UK farmers to adopt first ever targets to protect and restore soil⁷.

- 22.8. **Economic decline** (Figure 6) - all of the above points are contributing to structural changes to our economic outlook that have not yet been satisfactorily captured in the thinking and modelling government's rely on.
23. The challenges presented by the converging crisis from these systemic issues are unprecedented in scope, duration, intensity, and potential for destruction. This is an issue of national security, public health and safety, existential risk, insurance and liability, global citizenship, and so on.
24. The Wise Response Society exists to promote urgent, thorough consideration of the question "as demand for growth exceeds earth's physical limits, causing unprecedented risks, what knowledge do we need to secure our future?"
25. So the central theme of the WR submissions is the need to employ the tax system to shift to a more environmentally sustainable society, and help achieve various environmental goals.

WR recommends that the direct conflict between the demand for endless economic growth and earth's finite biophysical systems be accepted as a baseline presupposition and its implications be factored into this Tax enquiry.

7. End of Exponential Growth

26. Because the economy depends on the use of natural resources, on a small lone planet, already subject to the above stresses, we submit that it is much more **realistic to plan to for biophysical limits** to economic growth than to assume not, and that relentless material growth and expanding material throughput cannot continue unabated.
27. Once essential resources are scarce, we must logically gravitate toward a **"service and allocation" economy**. Under these circumstances, the conversation about meeting the communities "aspirations" and living standard "wants" must shift to discussing real needs and what is the most equitable and wise allocation in the common interest. This provides the opportunity to "bookend" a progressive tax regime with upper and lower bounds on income.
28. We need to **get past the idea that simply focusing on productivity** and undiscerning expansion will give good social and environmental outcomes. A good example is the Auckland housing boom - 100,000 new homes in 10 years! How long is it supposed that such urban sprawl can continue? What sort of wellbeing outcome will this response to demand bring for local residents, for NZ and how will it affect vulnerability to future economic or resource shock? Have

⁶ Montgomery, D (2007), *Dirt the Erosion of Civilizations*

⁷ https://www.theguardian.com/environment/2018/mar/13/uk-farmers-to-be-given-first-ever-targets-on-soil-health?CMP=Share_AndroidApp_Gmail

we given any thought to the balance between the capacity of the local ecosystem services, productive arable land, freshwater etc and the sustainable human footprint?

29. Moreover, the **human economy is a complex system**. Systems theory tells us that systems are not characterised by a series of independent events, but rather the expression of dynamic patterns of behaviour because of its high level of interconnectedness, which is reflected in its performance over time. The behaviour gives clues to its underlying structure, but because of the interconnections, just how the planet will react to resource limits is still subject to deep debate.
30. Thus, even armed with a huge body of science, **predicting what is likely to happen to our global community** very far into the future, is done at one's peril. However, a tax regime can only be effective if it is in tune with the needs of society at any given time. So, without suggesting a timeframe, we think it helpful to consider one high risk scenario (Box 1) to be avoided that appears more likely to our society than the current dominant BAU view.

Box 1: A high risk future scenario to be avoided

If we agree that growth can not continue unabated, then it must decline either gradually, abruptly or oscillate. Arguably, resource limits are already key drivers in global conflict, economic stagnation, political instability, low or variable prices for raw resources. With increasing pressure on the resource base, such stress can only escalate. Post 2006 GFC market lethargy persists and if this is the effect of a real biophysical limit(s), low growth or stagflationary conditions will persist. At some point, a contagious loss of confidence in the market will be triggered, overwhelming provisions like quantitative easing and bank "haircuts".

With so much of our economy operating on a "just in time" inventory, and the current system so heavily dependent on reciprocated trust and equity, there will be little time before there is dislocation in transactions and supply chains, liquidity issues for individual businesses, job losses, food shortages and shortage of equipment necessary for maintaining public services. Should it continue, then eventually government tax take will decline, cramping public service and governance operations.

The inevitable conclusion is that such a disruptive occurrence will, at best, restabilise the economy at a lower mean level of economic activity (although phasing would probably not be uniform between nations) and at worst, precipitate a widespread and uninterrupted downward economic spiral.

31. Thus, as a fundamental principle, we also submit that it makes much more sense for NZ to shift its primary focus (using all available tools, including tax) from a policy goal of maximum economic growth, to **maximising growth in wellbeing and resilience**.
32. We acknowledge however, that enveloped as it is in a global macro-economics systemically dependent on a level of growth for its stability, the scope for NZ to **shift unilaterally is constrained** by this social logic. Nevertheless and

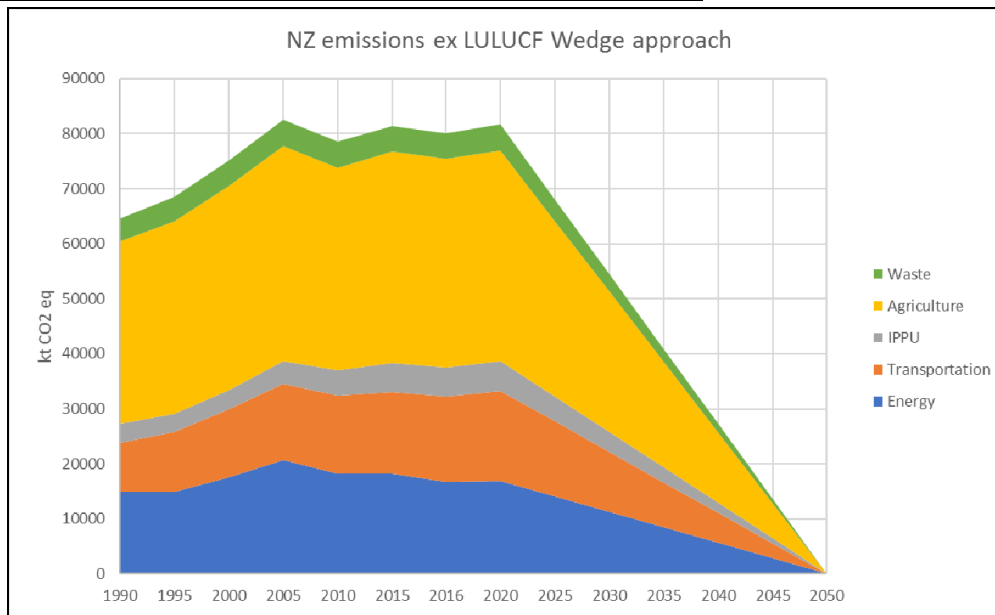
meanwhile, we consider there are **huge economic inefficiencies** and wealth distribution issues that can be addressed through tax adjustments that can make us much more resilient to growth-related risks.

WR recommend that the Taxation focuses on maximising growth in wellbeing and general resilience over maximum economic growth, even if this implies the re-establishment of a more autonomous policy regime for NZ.

8. Constraints of Climate Change Emissions

33. The signing of the Paris accord and its recognition of the need for global decarbonisation by or before 2050 for a chance of retaining a liveable climate, is such an **severe restriction** that it alone will dictate what kind of economic activity will be permissible for the foreseeable future. But fortuitously, the carbon-centric nature of our modern culture is such that successfully following this path to control climate change will inevitably largely resolve many of the other problematic environmental impacts.
34. Figure 7 illustrates the immensity of the **national decarbonisation challenge** and if the global average drawdown follows a similar pathway, still only gives us a 2/3 chance of staying below 2 degrees change. The data comes from the Dec 2017 report to the UNECCC⁸. Note that forestry and landuse offsets are not included but they have rapidly declined from 30 Mt to be approaching zero, so as of today, make no appreciable difference.

Figure 7: Gross NZ emissions with Zero Target added



Source: Lloyd R, Wise Response, based on NZ's 7th Climate Communication.

⁸ <http://www.mfe.govt.nz/publications/climate-change/new-zealands-seventh-national-communication-under-united-nations>.

35. An **equitable, per capita emissions budget for NZ**⁹ is exhausted in about 8 years post 2020 at current emission rates and less if embodied energy of NZ imports and methane from agriculture and waste is included (ie Zero carbon for NZ by 2028). This is based on the IPCC estimate of a global remaining budget to stay below +2 degrees of 500Gt leaving about 300Mt for NZ. Thus, effective action to limit emissions in NZ is extremely urgent.
36. Associate Professor Emeritus, Dr Bob Lloyd of Wise Response says "Essentially a carbon tax has to be set to make sure we **don't lose the biosphere!** You cannot "scientifically" or otherwise "price" the existence of our support system as an externality. We have a scientifically determined physical target. - 1.5 degrees (or 2 degrees) - to prevent runaway climate change. We know what has to be done in terms of emissions reductions to keep below this target (5th Assessment Report with associated probabilities).
37. "So we put the **initial carbon price** at a level that will incur those reductions which is 4% pa to 8% pa, depending on the temperature chosen and the start year. If the rate is not achieved in the initial years, then the carbon price must be raised. If we beat the target then the price can be relaxed. To prevent cheating we can use the annual atmospheric CO2 increase as a cross check on the reductions".
38. Because of the degree of challenge (and even though the cost of failure is so high), Wise Response are of the view that the only way that we will be willing to make the necessary behavioural changes to control emissions, is to **use the 2050 limit as a benchmark** and design economic systems to achieve the required reduction rates by back-casting.
39. Thus we do not agree with the statement in the **Tax Submission Background Paper** that "Due to the proportion of emissions that come from the agriculture sector, where emissions reduction options are limited, New Zealand may face higher costs than other countries to meet its targets". We see the fact that much of the gas from agricultural is short term as a positive opportunity to quickly cut our gross emissions gasses by changing farming practice. The immediate cost of this may be high, but the longer term cost of failing to do so is obviously higher!
40. Essentially, the acceptance of a global **GHG budget at Paris** was international acknowledgement that we must apply much closer attention to the ecological limits (in this case GHG emissions) to economic activity.

WR recommend that, where possible, NZ Tax supports the design of an economic pathway that complies with the remaining equitable per capita emissions budget to stabilise the climate at less than 2 degrees above preindustrial levels, but preferably closer to 1.5degrees.

⁹ A Contraction and Convergence strategy that arrives at an equitable per capita emissions allocation consists of reducing overall emissions of greenhouse gases to a safe level (contraction), resulting from every country bringing its emissions per capita to a level which is equal for all countries (convergence). <http://www.gci.org.uk/index.html>

Climate and Environmental Taxation

41. A recent Motu report modelled three main **GHG drawdown scenarios**
- 41.1. A policy-driven scenario in which high carbon prices do most of the work.
 - 41.2. A disruptive decarbonisation scenario in which rapid technological changes like the development of synthetic meats and electric cars disrupts industries that cause most of New Zealand greenhouse gas emissions.
 - 41.3. And a techno-optimist scenario in which existing industries remain but their emissions are reduced through technological advances such as methane vaccines for ruminant animals, carbon dioxide removal from steel-making and carbon capture and storage.
42. Wise Response suggest that to follow the 2050 pathway, and the associated budget, we will need a **blend of all three of those Motu scenarios**. Taxation should be deployed for at least two main categories of environmental concern:
- a) Externality correction**
- 42.1. For negative externality correction so that degraders, polluters and depleters pay. Depletion payments are really royalties, but degradation can be caused by a range of activities - such as the spread of weeds, degradation of solid stability, degradation of indigenous biodiversity, etc.
 - 42.2. For encouraging positive externalities such as protection of indigenous biodiversity. Thus taxation revenues should be used to abate the costs of things such as weed and pest control.
- b) For raising revenue for the provision of public goods and services.** This language is technical in that it refers to those goods and services that are of benefit to all but which cannot be funded unless they are provided by tax or rates or some other kind of collective funding. This is a strong justification for deploying funds for conservation purposes, remediation of pollution, decarbonisation transitions and so on.
43. **Pricing harms** is a good idea - so long as that does not then become interpreted as social licence to inflict harms.

Example of market failure to control environmental harm

44. For an analogy of the hazards of avoiding direct methods of controlling bad environmental outcomes we need look no further than the **fish quota management system** (QMS). Under the radar of stories about how it was a world-leading management system, fish stocks have been hammered to the point where they are, in many cases, largely non-functional in the ecosystem. MPI and its predecessors set harvest limits that are way too low for ecosystem health - 20 or 30% or less of the unfished biomass. They allowed some stocks to fall to less than 10%.
45. The fisheries managers so avoided “input control” regulations that they simply have provided nothing to induce shifts to less **environmentally damaging fishing methods** from very damaging methods such as bottom trawling, Danish

seining etc. Controlling implements have been desperately needed and not provided. The ghetto of fisheries management has largely ignored until recently the plight of marine ecosystems and been weak on by-catch.

9. Applying the Principles

Principle 1: Equity

46. WR submits that NZ's current tax system is inequitable in a number of ways. Firstly, in comparison to Australia, Canada and UK, New Zealand **under-taxes high-income earners and over-taxes low income earners**. We recommend that low income earners should pay no or minimum tax, and high earners should pay more¹⁰.
47. We are aware that the tax contribution from an increase in the higher tax rate may not be relatively large, but it is to meet the principle of equity rather than tax revenue. We note the **research of Wilkinson and Picketty**¹¹, amongst others, which establishes that where a society which has a small gap between rich and poor is a healthier and happier society for all its populations than societies where the gap between rich and poor is greater.
48. Interpreting Picketty, **Bertram (2015)** states "In the long run, Picketty argues, capitalism and equality can coexist only if the disequalising dynamics of wealth accumulation are checked by collective will. Of course, if all wealth ('capital') were collectively-owned and the rents equally shared, inequality would not follow from a rising rent share. But private property in wealth, combined with a tendency towards concentration of its ownership (which Picketty predicts on the basis of economies of scale and scope in the management of wealth portfolios) imply an **increasing division of the population** into haves and the have-nots, until an equilibrium is established in which the ratio of wealth to output is stable. The identification of this equilibrium has been Picketty's central new contribution to economic theory (Bertram, 2014)".
49. He goes on to consider the **Rawl principle** and the limit of tolerance for inequality before action is demanded - including possible rupture of the social fabric. With respect to NZ, Figure 8 below appears to show the significant impact of changes in tax policy on the **Gini Coefficient measure** of wealth inequality in NZ over 30 years between 1982 and 2012. Analysis of the full cycles of past civilizations suggests that growth in wealth disparity (including emergence of land "barons") along with other factors like overpopulation, resource overshoot, stagflation, lower top tax rates, high relative rents and invasions are common characteristics on the path to their eventual collapse¹². If we are interested in sustainability then using tax where possible to counter such developments would appear to be in the common interest and a highly prudent move.

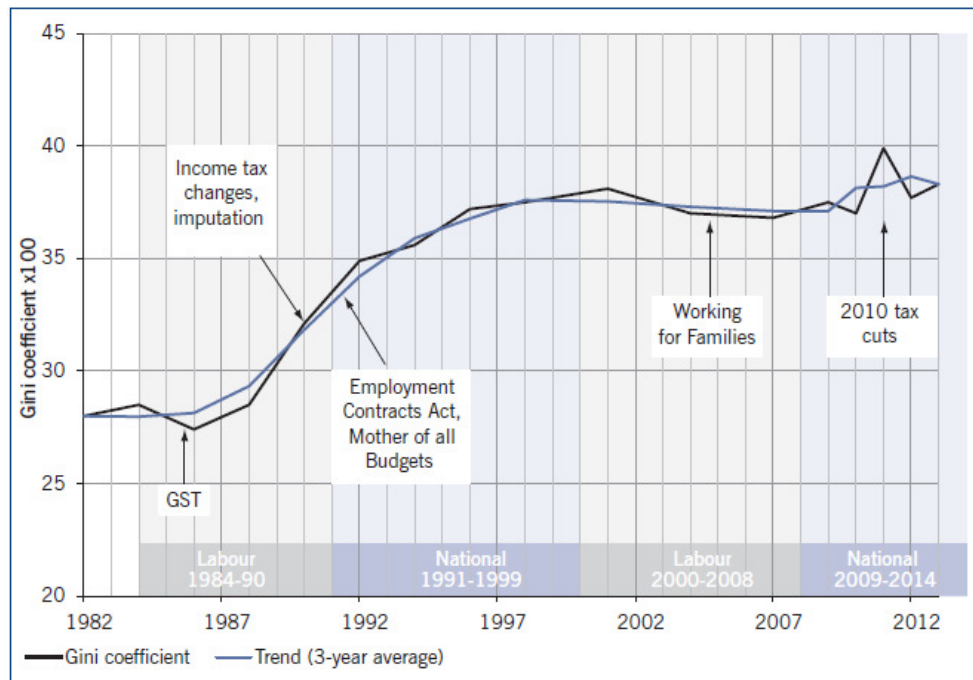
¹⁰ Salmond, R. 2011 The New New Zealand Tax System. Institute of Policy Studies

¹¹ Wilkinson R and K Pickett, 2009, The Spirit Level

¹² Turchin and Nefedov. 2009, Circular Cycles reviewed at <http://energyskeptic.com/2014/book-review-secular-cycles-and-war-peace-war/>

WR recommends that tax rate be changed so low income earners should pay no or minimum tax, and high earners should pay more than the current rates.

Figure 8: Gini coefficient for household disposable income after housing costs, under four administrations 1982-2012



Source: Bertram G. 2015, A NZ Perspective on Thomas Piketty's Capital in the Twenty-first Century

50. **Secondly**, at present the tax collection system is both **inequitable and inefficient** (principles 1 and 4) in that tax evasion is widespread and large, and that the courts are more lenient on white collar criminals¹³.

51. Marriott estimates that tax evasion is in the order of \$7.4 billion (compared to benefit fraud of around \$22 million). There is evidence that a number of multinational companies are not paying a fair share of tax¹⁴.

WR recommends that the necessary steps be taken to resource and authorise the relevant Government agencies to significantly reduce tax evasion.

52. Recently two of the journalists who investigated the **Panama Papers**, stated that a database of actual owners of companies would enable a check of companies to find out who were evading tax¹⁵.

53. It would enable activists, journalists and sceptical **citizens to investigate** the individuals running dubious companies which earn millions in alleged “consulting

¹³ Marriott, L. Retrieved from <http://www.victoria.ac.nz/research/expertise/business-commerce/fraud-sentencing>).

¹⁴ https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11607336

¹⁵ Obermaier, F and B Obermayer April 3 2018. Oligarchs hide billions in shell companies. Here's how we stop them. Guardian. <https://www.theguardian.com/world/commentisfree/2018/apr/03/public-registries-shell-panama-papers>

contracts”, which are in many cases, nothing more than concealed payments of corruption money. It would also give prosecutors the opportunity to follow dark money without having to rely on nerve-racking, time-consuming legal manoeuvres with foreign governments. Nicky Hager has recently supported similar moves¹⁶.

WR recommends that companies be required to publicly report on who the individuals are who own companies operating in NZ.

54. **Thirdly**, the current tax system regarding the purchase and **sale of land and properties is inequitable** in that large capital gains are made by speculators and others. During recent years New Zealand has seen rapid rises in house prices, with resulting problems of house shortages for lower to middle paid salary earners (including for example, teachers and caregivers in the health and welfare sectors). This has contributed to a growing gap between rich and poor.
55. A significant cause of this is the adoption in New Zealand of a **neo-classical economic model** that favours light regulation and open global financial markets. Keynesian economics, with its focus on countercyclical fiscal policies, was introduced in the late 1930s to combat the depression, shortly before World War II . It became mainstream in the post-war years.
56. Between 1945-71, governments which used **Keynesian economics** managed credit creation, interest rates across the spectrum of lending, mobile capital and the exchange rate, resulting in low interest rates, near full employment, financial stability and a thriving public and private sector.
57. Pettifor is one economist who advocates for a **return to a Keynesian economic model**. She states that there are a number of macro-prudential tools available for the management of money or credit production, including debt-to-income ratios and leverage caps¹⁷.
58. In addition, she describes the **loan-to-value ratios in Germany** for determining house prices. This is based on a longer-term assessment of the value of a property, resulting in lower valuation of property, lower credit requirements, and more stable prices over time.
59. There are an increasing number of internationally renowned economists who have written about the failure of the current widespread method **of creating money**. Others state that proper controls should be established over the private operations.
60. Without going into a detailed consideration here, we believe that the **money** creation function for government projects and programmes, and public goods, **should be in the hands of government**, perhaps through the re-establishment of State Advances (which was abolished by Roger Douglas), and the use of macro-prudential tools for the proper control of the private creation of money.

¹⁶ <https://www.radionz.co.nz/news/national/355443/the-daphne-project-new-zealand-still-a-haven-for-some>

¹⁷ Pettifor, A. 2017, The Production of Money, Verso

WR recommends that the money creation function for government projects and programmes and public goods should be in the hands of government. Stronger macro-prudential tools for the proper control of the private creation of money and credit should be implemented. WR suggests that the lessons that Germany can offer be investigated.

61. Fourthly, **GST is a regressive tax** that thus discriminates against poorer people. It is our understanding that technically, it is easy to have variable GST so that it is possible have zero GST on fresh fruit and vegetables while we could have 30% on high sugar drinks for example, or vary GST according to fuel economy of vehicles. This is just a way of allocating costs more fairly and no-one should expect markets to work effectively if they are not prepared to allocate costs properly.

WR recommends that variable rates of GST be introduced to enable zero rates for essential and healthy goods such as fresh food and vegetables, and higher rates on socially and environmentally harmful goods and services such as high sugar drinks (Principles 1 and 8).

Fifthly, we recognise that taxes focussed on income do not necessarily deal with the growing **gap between rich and poor**. A wealth tax is an option to address this issue. We do not have the technical expertise to advise on the best way to implement this, but support the principle.

WR recommends that the principle of a wealth tax be adopted.

Principle 4: Efficiency

62. **Taxation on products and services** needs to be designed to avoid hugely complicated decisions re categories and to avoid high collection and monitoring costs.

63. **Excise taxes** only work for raising revenue if there is price inelastic demand – such as with alcohol and cigarettes. Badly designed excise taxes can obliterate legitimate industries if imposed on goods and services with high price elasticity of demand, such as many available substitutes. This lesson was all too well demonstrated by the ill-fated caravan tax. For something like a 20% excise tax, the industry and jobs shrank by about 80%.

Principle 5: Meeting the Government's revenue needs

64. WR submits that the Government is not in a position to carry out the necessary steps to fund its programme of transforming New Zealand away from the **failure of a market driven economy**. It is our submission that economic policies based on the priority of markets to determine the allocation of goods and services, and a downsizing of the State to play a regulating and compensatory role has led to the widespread growth in poverty and in environmental degradation, including potentially catastrophic climate disruption, and major deterioration in the functions of government funded services, and in particular, health, welfare and educational services.

65. For example, there have been numerous recent comments from reporters and commentators¹⁸ about the major problems in many of the services such as health, and the rebuild of houses in Christchurch damaged by the earthquakes. Lifting people out of poverty will not occur to the level predicted before the election. The Government is saying that it will be able to stay within its budget levels, but also that the problems left by the previous Government will not be eradicated as soon as it would like.
66. WR believes that these imposed limits are artificial and that it needs to explicitly reject a philosophy and policies based on a minimum role for government as outdated and conceptually flawed. We also state that the belief that the market can always provide goods and services more efficiently than government is not justified.

WR recommends that the Government rejects a minimalist role of government as one based on an economic and organisational model that is outdated and inadequate, and that where there is evidence that the provision of adequate services needs a more realistic financial base through taxes and other sources, that these be provided.

67. Raising revenues for government expenditure purposes includes:
- 67.1. **The provision of non-excludable services and goods**, which can only be provided by collective means since private provision (except by charity) cannot be achieved in markets, because private providers cannot gain sufficient revenue to cover the costs of provision
 - 67.2. **The provision of public goods and services.** Non-rival and non-excludable goods and services are known in economics as public goods because they can only be publicly funded and they can be consumed by one person without diminishing the benefits to others. Examples are the benefits of ecosystem services, views, health and other benefits from protected natural areas (up to congestion limits, defence, regulatory services and public safety measures, and so on.
 - 67.3. **The provision of Merit Goods.** Governments also raise revenues to provide merit goods, and services which are those that society deems important to supply to certain classes of people who “deserve” them. These may provide private benefits but typically also provide social benefits. Examples are education (often provided free or subsidised on account of the value to those receiving it and to society), health care, some aspects of law and order services, and special treatment of those who suffer disadvantages.
 - 67.4. **The provision of regulatory services** – e.g. setting and enforcing environmental standards, prohibitions, protecting human and employment rights, measures to protect biodiversity via rules about harvesting.

¹⁸ http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12030220

- 67.5. **The provision of information to citizens and corporates** to lower the transactions costs to people wanting to make decisions needing authoritative information - e.g. chemical, pharmaceutical, energy and other standards and certifications and guidelines.
- 67.6. **The establishment of measures to correct market failures** and so to enhance efficiency, fairness and wellbeing. These can include correcting the non-provision of public goods and implementing Pigouvian taxes and subsidies. (Pigouvian taxes and subsidies are designed to correct externalities by penalising via taxes, harmful activities and encouraging beneficial activities by subsidizing actions with socially beneficial effects. These include rewarding biosecurity measures such as pest and weed control, providing rates relief (local government) for indigenous biodiversity protection. Payments for environmental services are undertaken in some countries.
- 67.7. **Closely allied with Pigouvian taxes are measures to “nudge” people** to behave in more socially beneficial and less harmful ways (Principle 8). Pollution charges, levies or excise or carbon charges for instance on harmful activities (such as greenhouse gas emissions, nitrogen, stock units as a proxy for soil and water harms) and sugar consumption are all examples,
- 67.8. **Charging for depletion or degradation** of socially valued and/or owned assets - usually called resource rents or royalties. These reflect the use or using up of scarce resources or scarce capacity – such as of absorptive capacity of the environment, fish, minerals, water.

Principle 8 Changing behaviour that contradicts society’s core values and needs

68. Earlier in this submission we described the need for humans to live within the ability of **Earth’s systems** to support such life if they are to survive as a species. Climate warming is but one manifest symptom of our current inability to live within such constraints.
69. Wise Response considers that for environmental management there is a need for a **mix of instruments** including taxes, regulation, standards, minimum unit price (e.g. Scotland on alcohol), bonds, different technologies and trading, provided the last is controlled and monitored within set bounds and its environmental outcomes.
70. In the case of **mines in NZ**, they have a sorry history of company disowning environmental damage. Realistically sized bonds need to be clearly tied to those responsible for action in response to a disaster, harm or benefit (Green bond) and not the consent alone.

10. Recommended Policy Objectives with a View to the Long- term

71. There are many possible tax initiatives that could be considered and so we recommend, instead, the adoption of policy objectives (with some suggestions), some of which have already been indicated above.
72. Environmental Objectives - keeping within biophysical limits.
- 72.1. **Shrink the fossil fuel industry** as a whole and ramp up solar, wind, biomass, marine and other alternatives in line with the 2050 emissions limit. The remaining fossil fuel budget allowed under the IPCC AR5 mitigation scenarios should be used predominantly to make the renewable energy devices, and for other essential services.
- 72.2. **Minimise the depletion and degradation of natural capital** systems and the material and services that these generate. Replace non renewable resources with renewable ones and establish sustainable yields on these.
- 72.3. **Tackle environmental destruction/degradation.**
- 72.4. A great deal of resource and time goes into risk assessment and risk reduction. So far as it is able, tax design needs to ensure that the **incentive is for behavioural change where it is most rational** and gives the best bang for buck, rather than reducing the risk of much less likely and much more localised risks - hi vis vests, speed limit enforcement, tailgate reports, risk plans for educational outings, risk of infection in water supply.
- 72.5. **Pricing of GHG emissions as one means of reducing GHG.** Of real concern to the Society is the legitimacy of and therefore real gain from employing tradable carbon credits and their use of the present day carbon cycle to attempt to offset fossil carbon. The Government can control the use of :
- i. Either of quantities of GHG emissions allowed (or carbon credits) and allow markets to set prices within rules, OR it can set the price in the form of a GHG carbon equivalent carbon charge (i.e. a tax) but they can't do both.
 - ii. Critical issues for both are the design, the scope of application, the predictability of the supply and price or of the tax.
 - iii. Either price mechanism must be accompanied by other measures – e.g. where information costs are otherwise too high (such as judging appliance efficiency) consumer information and/or appliance efficiency standards will be required.
 - iv. Any price signal must be (via the ETS or Tax system) sufficiently strong and predictable to actually deter use of fossil fuels, methane and other GHG emissions.

- v. It must engage not just businesses and services but all residents and consumers.
 - vi. Incentives must be framed within short, medium and long term, and in the short term, transitional measures to allow choice and adjustment may be needed.
- 72.6. **Establish a carbon/resource levy payable by importers** to fund technological transfer and ecological protection (honour international aid of 0.7% of GDP). There is clearly a potential conflict here between what is perceived as economically advantageous in the short term (and why we enter free trade agreements) and our capacity to look after our environment through such tax provisions. An alternative is a revenue neutral levy.
73. Strengthen human and social capital (in addition to the Recommendations on Equity above)
- 73.1. **Address perverse incentives** and damaging social logic and norms that locks us in to unsustainable behaviour.
- i. Co-benefits from some forms of tax may be to promote local consumption and production, and fair trade.
 - ii. Incentivise product stewardship and durability – but regulatory interventions may also be important.
- 73.2. **Taxation may raise revenue to provide for public spending.** This spending may include for the provision of public assets, goods and services (i.e. these are non-rival and non-excludable of those who do not pay) and can include both direct public funding for or provision of, the following and/or regulatory or other measures that may be companions to these.
- i. Create and protect shared public space;
 - ii. Provide for or otherwise fund pest and weed control, remediation of damaged places,
 - iii. Strengthen community-based sustainability initiatives
 - iv. Promote settled communities – e.g. through measures to protect tenancies and to provide or fund housing
 - v. Provide training for green jobs
 - vi. Offer better access to life-long learning and skills via funding those seeking these things or by direct Crown investment in the infrastructure.
 - vii. Place more responsibility in the hands of local communities subject to controls to protect the environment, the interests of the future and the Treaty of Waitangi obligations and traditional knowledge and societies.

- viii. Expenditure to protect public service broadcasting and other public good media
 - ix. Fund museums and public libraries, public art, culture, parks and green spaces, and coastal and marine environments.
- 73.3. **Tackle systemic inequality:** Systemic income, wealth and opportunity inequalities drive status consumption which causes various bads. Support those experiencing entrenched disadvantage and help them move on to better outcomes using strongly progressive redistributive taxation. And/or direct government transfers and investment in education, cultural affirmation, inclusive and participative consultation programmes.
- 73.4. **Adopt appropriate technological developments** and avoid vulnerable, high energy urban conglomeration. Increasing globalisation, means social systems and economic infrastructure are becoming more uniform and tax settings may become relatively more important in decisions about where people will invest and work.
- 73.5. **Education** - tax-transfer setting to cover the cost of tertiary education to NZ Students to no longer burden our youth with debt they may never be able to repay due to the vagaries of the job market. They are too young to understand the implications of amassing a huge debt so early in their lives. Yet a good median standard of education will give us the best chance of creating effect strategies to manage the end of consumptive growth.
- 73.6. **Investment in women's education** is also critical for intergenerational flourishing of families which will likely also be smaller.
74. Economic objectives
- 74.1. **Productivity** - The Government has set a steep downward trajectory for GHG emissions to 2050. Productivity should be seen within this target.
- 74.2. **Shift the balance of taxation from economic "goods"** (in the sense of benefits to society) to ecological and social "bads". Pigouvian taxes and subsidies should be established to deter pollution and degradation (e.g. of water, soils, air and ecosystems) but also to encourage such matters as protection of indigenous biodiversity and the implementation of biosecurity measures. Such Pigouvian taxes and measure have the benefit of realigning incentives and, in the case of taxation, rising revenues. Compensating society may be possible to the extent this is meaningful where there are irreversibilities and non-substitutability of environmental qualities and assets.
- 74.3. **Much more strong-minded provisions to impose resource rentals to compensate society** for depletion of environmental quality and for using up other scarce resources are needed. Though conceptually very different from a "tax" since these are really scarcity pricing charges, they can be included under the rubric of "tax policy" and do serve to deter or limit resource use while also providing revenue to society. In some cases,

careful regulation and social choices need to accompany these measures – as for instance in the case of exploration and mining of resources.

- 74.4. **Invest in jobs, assets and infrastructures** - notably for the transition of industry.
- 74.5. **Reduce debt and accumulate reserves** as a way of minimising vulnerability to global contraction and meeting some of the anticipated future costs.
- 74.6. **Incentivise domestic savings** to help buffer economic perturbations and a sense of well being and resilience.
- 74.7. **Build a stronger culture of tax compliance.** This applies to multi-nationals using transfer pricing and other devices and to the under-the-counter trades. These may be exchanges of goods and services such as tradies doing “homies” and other work for favours or reciprocal exchanges of some sort, and to those who just do cash jobs, use fake names or find other means of tax evasion. For culturally embedded tax evasion, any measures need to be accompanied by changes of these widespread social norms of , and tolerance of, tax dodging
- 74.8. **Find ways to more fairly tax investment income,** especially corporate income. This is important because investment can be switched with relative ease between alternative activities and locations and because profit can be shifted between jurisdictions.
- 74.9. **A regular process of review to address tax avoidance and minimisation** strategies is needed. If not corrected, these erode the integrity and benefits of the regime.
- 74.10. **Ensure that the tax regime is able to adapt effectively** within an economy under punctuated or prolonged recession.

APPENDIX

Figure 1: Ecological footprint

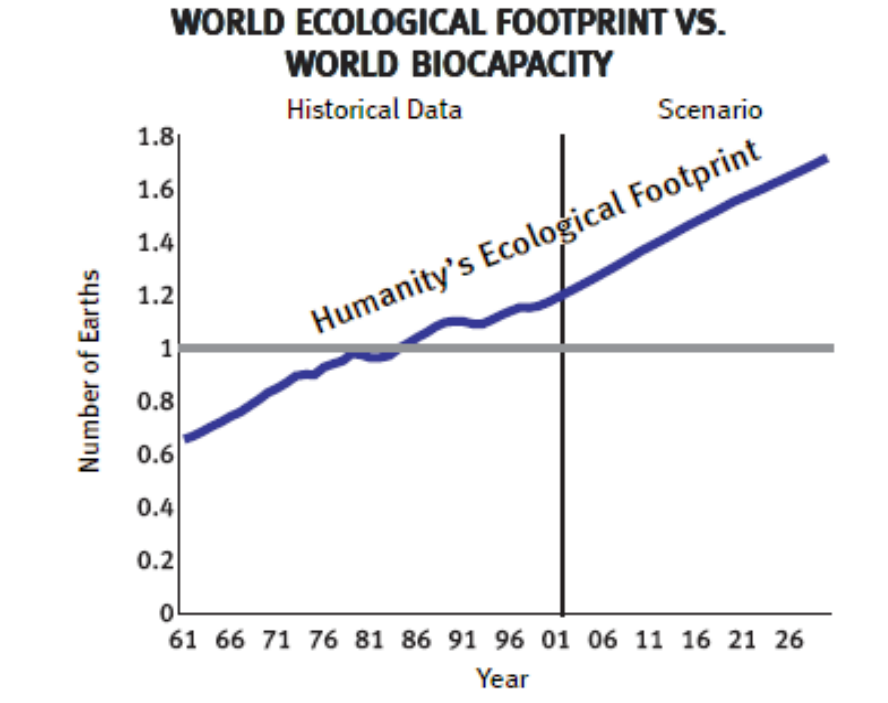


Figure 2: Limits to growth reassessed

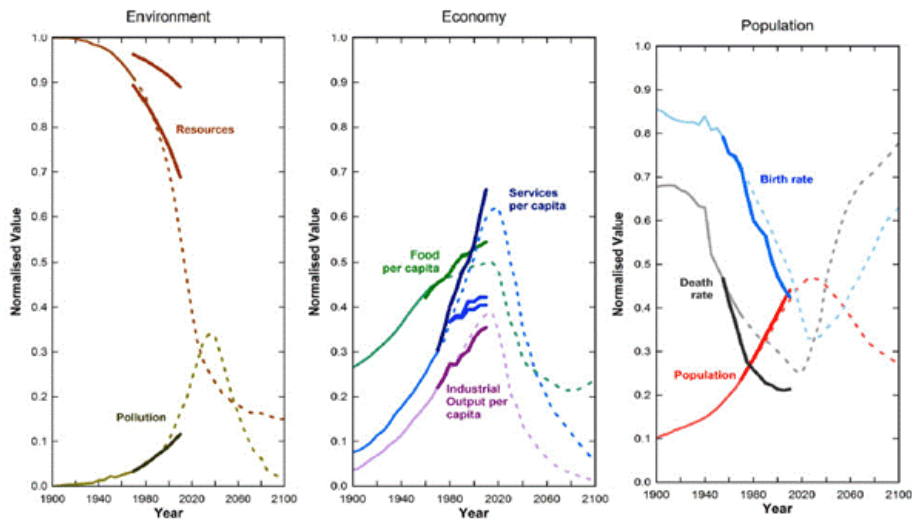


Figure 1. LTG BAU (Standard Run) scenario (dotted lines) compared with historical data from 1970 to 2010 (solid lines)—for demographic variables: population, crude birth rate, crude death rate; for economic output variables: industrial output per capita, food per capita, services per capita (upper curve: electricity p.c.; lower curves: literacy rates for adults, and youths [lowest data curve]); for environmental variables: global persistent pollution, fraction of non-renewable resources remaining (upper curve uses an upper limit of 150,000 EJ for ultimate energy resources; lower curve uses a lower limit of 60,000 EJ [Turner 2008]).

Figure 3: Earths Planetary Boundaries

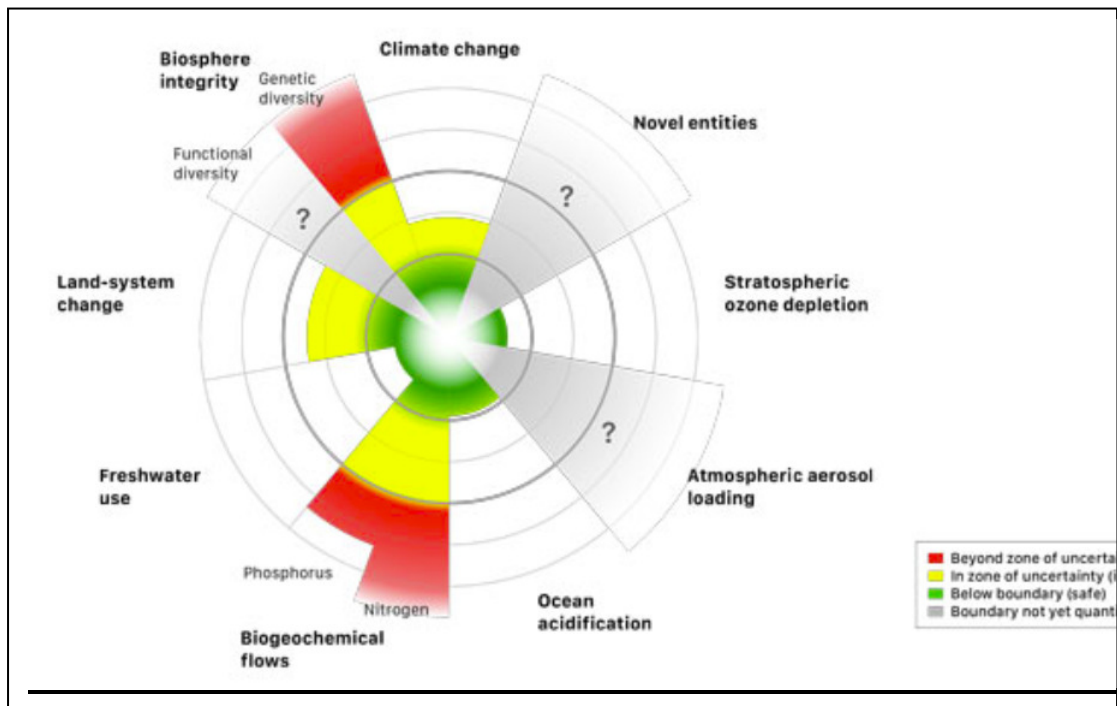
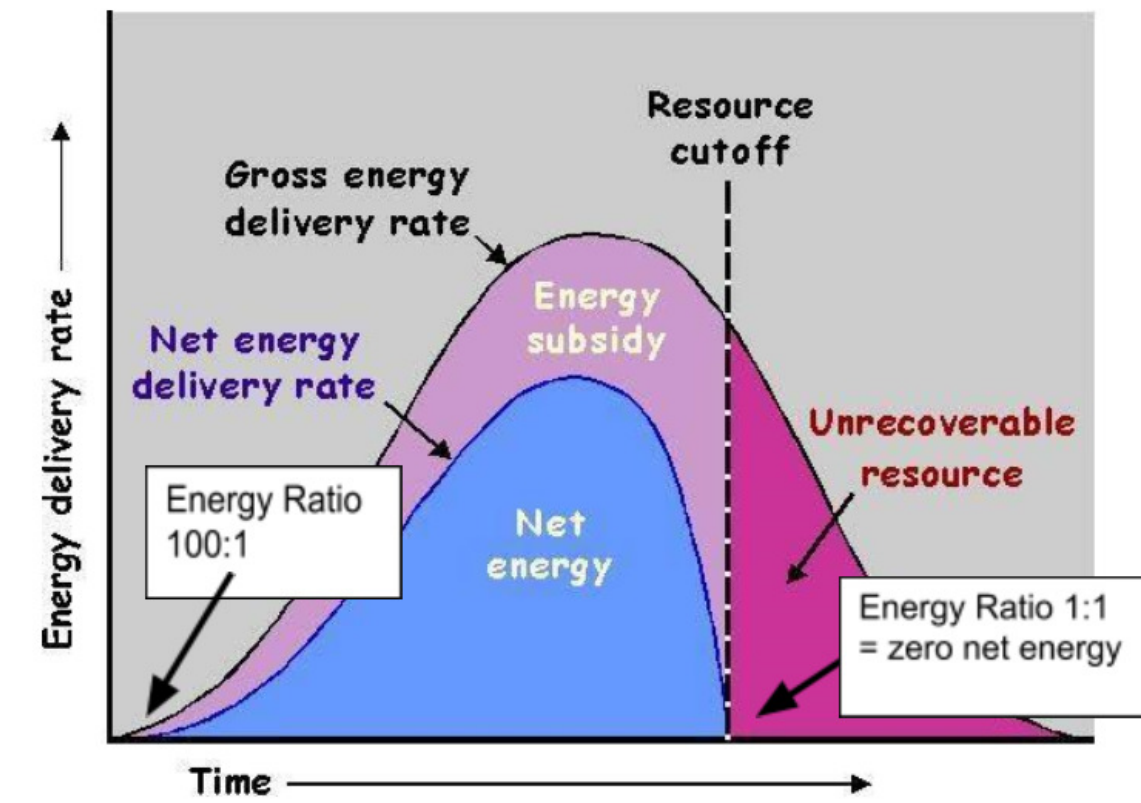


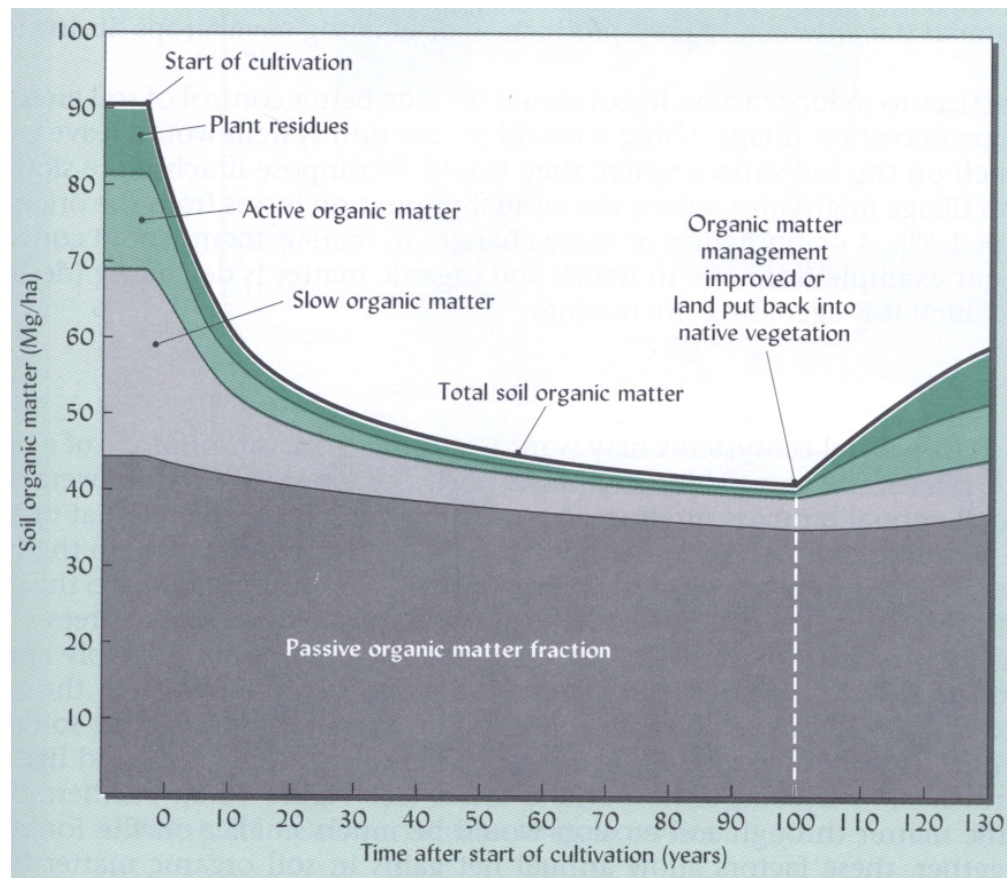
Figure 4: Decline in Energy Return on Energy Invested (EROEI)



When oil was first discovered the EROEI in producing it was over 100/1, but Murphy (2013) estimates that by 2000 the global figure was about 30, and a decade later it was around 17. These approximate figures are widely quoted and accepted although not precise or settled. In other words, oil is rapidly becoming scarcer and more difficult to locate and produce. Thus prospectors are having to go to deep water sources (EROEI of 10 according to Murphy), and to develop unconventional sources such as tar sands (EROEI of 4 according to Ahmed), and shale (Murphy estimates an EROEI of 1.5 ... Ahmed reports 2.8 for the oil and gas average.) Charles Hall, the scientist responsible for developing the EROEI ratio, paints a rather ominous picture of the practical significance of lower ratios.

- To pump the oil out and look at it you need 1.1:1
- Refine it and look at it you need 1.2:1
- To drive a truck at the wellhead 3:1
- To move stuff and depreciate the truck 5:1
- Depreciate the truck driver, oil worker, farmer and support families 7:1
- Education 8:1 - 9:1
- Health care 10:1 - 11:1

Figure 5: Tillage impacts on Soil Organic matter when native grasslands are converted to agriculture



Source: Brady and Weil, 1999

Figure 6: Declining Growth consistent with reaching limits

