Mind the Gap.

Green New Deal initiatives to combat growing inequality in New Zealand

May 2010
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The Green New Deal is what a Green Government would do right now to combat the biggest economic, environmental, and social problems facing Aotearoa New Zealand.

Last year, the Green Party released two packages of ‘shovel-ready’ initiatives the Government could take to stimulate the economy and look after the environment at the same time.

This is the third instalment of our Green New Deal. It contains solutions the Government can implement right now to combat growing inequality in New Zealand.

We have chosen to focus on inequality and its effects on children because income inequality has been shown to be the single most important cause of a wide range of social and economic problems.

We have chosen to focus on children because they are the future of our planet and society. All children are entitled to live in a safe, sustainable society that protects their rights to warm housing, safe affordable food, quality public education and healthcare within a loving, supportive whānau.

Inequality hurts every child and every family, not only the people at the ‘bottom’, and we know that New Zealand is one of the most unequal countries in the developed world.

We are concerned at the path John Key’s Government is taking us down: away from a clean, smart economy, and a caring society, towards environmental destruction, an unsustainable economy, and widespread social inequality.

By contrast, the Greens have a vision for a smart economy and a better society. We’ve got lots of ideas about how to get there, and we want to share them with you and hear what you think.
A more equal society is better for everyone

A growing body of compelling research suggests the single most important way to address major social problems—crime and imprisonment, violence, drug and alcohol addiction, mental illness, poor educational achievement—is to reduce the gap between rich and poor.

Researchers like Richard Wilkinson and Kate Pickett have used data from all over the developed world to compare rates of these problems to the size of the gap between rich and poor. They have concluded that without exception, these problems are all worse in more unequal societies.\(^1\)

Their research shows that inequality hurts everyone. Inequality is not just about poverty (although its effects are of course usually felt more keenly by the most vulnerable children and their families). In unequal countries like New Zealand, life expectancy is lower even for people in middle and upper income brackets than in more equal countries. Obesity is more common in all income brackets in unequal countries. Even children whose parents are highly educated do better in more equal societies. The same is true for a wide variety of problems.

\(^{1}\) Wilkinson, R and Pickett, K; The Spirit Level: Why more equal societies almost always do better; Allen Lane, 2009
The reason for this strong relationship between inequality and poor social and health outcomes is complicated. At its heart, it’s related to the stress that competition for social and economic status places on human beings, and to the negative behaviours and feelings of inferiority and threat associated with entrenched social and economic divisions.

All over the world, there is growing public recognition that addressing inequality is one of the biggest political challenges of our time. In the UK for example, there has been a National Equality Panel since 2008, and inequality was a major area of contest in the recent election.

**Inequality in Aotearoa**

Here in Aotearoa New Zealand, inequality is also emerging as a key political issue.

It’s not surprising that New Zealanders are taking note of the negative effects of inequality, given our poor ranking among developed countries. The most recent OECD report ranks New Zealand 23rd out of 30 for income inequality. Last year’s *Human Development Report* ranked us 6th most unequal among highly developed countries.

The graph on the next page shows rapid increases in the gap between the rich and the poor from 1986 until 2001. Real incomes for lower and middle income families fell while the income of wealthy households soared. Working for Families and an increase in the top tax rate to 39 percent briefly reversed 15 years of rising inequality. But the effect was short-lived, and we are now caught in a period of rising inequality once again.
The decisions of John Key’s Government are taking us in the direction of more, not less inequality. The best example of this is the GST increase to 15 percent expected in Budget 2010. This is a classic example of a policy that will increase the gap between rich and poor, because it disproportionately hurts people on lower incomes. The lower your income, the more of it you spend each week, meaning you’re paying GST on almost everything you earn. By contrast, those who can afford to save and invest money after covering their basic needs end up spending proportionately far less on tax.

7 There are many ways to measure inequality. The Gini co-efficient is one of the more sophisticated, as it measures inequality across the whole of society rather than comparing extremes in income. If all the income went to one person, the Gini co-efficient would be 100. If all income was evenly shared, the co-efficient would be 0. For most OECD countries, the co-efficient ranges between the low 20s and 50 (a very high score).

8 Collins, S; ‘GST rise will hurt poor the most’; New Zealand Herald, 30 January 2010
Our vision for a better society

The Green Party is committed to a more equal Aotearoa, with all the social and economic benefits that this would bring. This means higher levels of trust, stronger communities, lower levels of crime—especially violent crime—and fewer people in prison.

Greater equality would also help to strengthen whānau and family relationships, reducing the incidence of domestic violence and teen pregnancy. There is strong evidence that more equal societies have fewer problems with drug and alcohol addiction, and overall better levels of mental health. Other health measures would also improve, such as the incidence of obesity, heart disease, type-2 diabetes, and smoking-related illnesses.

All of these problems are rife in New Zealand at present. They cost taxpayers millions of dollars a year, and make our economy less productive and resilient than it could be.

There is also strong evidence that greater equality leads to better environmental outcomes. The obsession with growth at all costs and conspicuous consumption puts a huge strain on our environment. These behaviours have been shown to be linked to our preoccupation with social status and competition, which is less pronounced in more equal societies.

With reference to policies to cut carbon emissions to address global warming and their relationship to inequality, Wilkinson and Pickett go as far as to say:

*Given what inequality does to a society, and particularly how it heightens competitive consumption, it looks not only as if the two are complementary, but also that governments may be unable to make big enough cuts in carbon emissions without also reducing inequality.*

Forms of inequality

The Mind the Gap package is focused on income inequality across the board, without reference to inequalities that impact on specific groups. However, we are aware that factors such as ethnicity, gender, and disability are a major part of the experience of inequality for many people.

The persistent and pronounced inequalities between Māori and non-Māori reveal the long-term impact of the Crown’s failure to honour the articles of Te Tiriti o Waitangi. At the core of this inequality has been the historical failure to respect the tino rangatiratanga of hapū and iwi as set out in Article Two of Te Tiriti. The continued economic hardship borne by tangata whenua shows the need for fair treaty settlement redress and also for citizenship rights under Article Three of Te Tiriti to be taken seriously. In addition to supporting the Te

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10 *The Spirit Level*, page 215.
Mind the Gap.

Tiriti claims process (which is flawed but is the best and only redress on offer), the Green Party supports policies designed to address group inequalities directly. This is why we have provided qualified support for the Whānau Ora policy recently announced by the Government, pending more details of how the policy will work.

Similarly, we acknowledge marked inequalities for Pacific peoples and other migrant and refugee populations. We note the most marginalised group across all cultures are the disabled, who receive the lowest wages and benefits and have the least access to conditions of life that create well-being. We note that inequality persists between men and women, particularly with regard to income. The impact of racism and discrimination against these groups cannot be ignored or denied in any attempt to address inequality.

The measures in this package, although not targeted directly at marginalised and vulnerable groups, offer structural changes which would benefit them, and especially their children.

There are other measures not included in this package which would also directly address income inequality. These include raising the minimum wage to at least $15 per hour, exploring measures to secure pay equity between men and women, and indexing benefits to the average wage as is the case with superannuation. The Green Party supports these measures as well and is actively campaigning on them.

In the next few months, Green Party Co-Leader Metiria Turei will take this ‘Mind the Gap’ package on tour, focusing particularly on the impacts of inequality on our children, and strategies to address this.

What’s in this package?
This package contains eight simple solutions in four areas to take us towards greater equality and to reduce the gap between rich and poor in Aotearoa New Zealand. These are not intended as a comprehensive solution to the problem of growing inequality, but as eight simple, practical initiatives that can be implemented immediately.

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<th>Secure housing</th>
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<td>Solution 2: A comprehensive capital gains tax (except on family homes)</td>
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<td>Solution 8: Secure long-term rental tenure</td>
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</table>
**How much will it cost?**

We have endeavoured to cost these measures and indicate their likely benefits. These costings represent best estimates at the time of writing.

Some measures in this package, like introducing progressive electricity pricing, and changing tenancy laws to promote secure long-term rental tenure will necessarily not involve any direct cost to the Government.

Some, like introducing a tax-free threshold of $10,000 carry an opportunity cost of lost revenue. Others, like extending welfare provisions and investing in new housing stock involve new spending.

The total cost of the solutions in this package is estimated at $4.46 billion per year.

This package also recommends the introduction of a comprehensive tax on capital gains (excluding the family home). Not only would this have a positive impact on inequality, it would generate significant new revenue for the Government of up to $4.5 billion per year. In the long run, this would offset the cost of the other measures proposed.

In the short run, John Key’s Government has some choices to make. Inequality is driving health, social, and economic problems and costing New Zealand taxpayers billions of dollars a year. An investment in reducing inequality now will pay dividends in reduced costs in future – less spending on obesity-related illnesses, or housing record numbers of prisoners, for example.

John Key’s Government has already initiated or signalled some big spending, including $10.7 billion on new motorways in the next ten years, an estimated $500 million per year from cutting the top tax rate from 38 to 33 cents, and potentially hundreds of millions of dollars on taxpayer-subsidies to protect businesses from the Emissions Trading Scheme.

It’s a question of priorities. A Green Government would make reducing inequality in New Zealand one of the highest and most urgent priorities. We urge John Key’s Government to do the same.
Fair tax

Compared with other age groups, a significantly higher proportion of young people reported receiving no income or income loss. Young people’s real median income decreased by 46 percent between 1986 and 2001. In 2006, the median income for young people aged between 20 and 24 was $11,500.11

Sam Morgan, who created online auction website Trade Me in 1999 and sold it in 2006 for more than $700 million, has criticised the tax system as unfair to “working people”. Flush with tax-free cash from the sale of Trade Me, he said the system meant he effectively dodged the tax man. "I was lucky enough to sell my company in a country with no capital gains [tax], so I paid no tax on the sale. Now I’ve got no income effectively, because I don't have a proper job, so the tax that I pay is minimal … I pay basically no tax. And that's not right, but what am I supposed to do? … The amount of tax people pay in different areas is not fair. The people that pay the most tax are working people.”


Introduction

Making changes to the tax system is one of the most important and direct policy options available to the Government if the goal is to promote equality. The changes proposed here use the tax system to narrow the gap between rich and poor and would have an immediate effect. In the long-term, they would work well in conjunction with wider structural changes to the tax system, as set out in the Green Party’s economic policy. Taken in combination, these solutions will be cost-neutral.

John Key’s Government is principally interested in tax reform that will lower top personal tax rates to 30 percent and raise GST to 15 percent to pay for it. This is a double blow for inequality. Internationally speaking, New Zealand already has some of the lowest top personal tax rates in the world. A move to make them even lower is a radically regressive step towards a more unequal society.

### Solution 1: A tax-free $10,000

<table>
<thead>
<tr>
<th>Description</th>
<th>The first $10,000 of income is tax free.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Everyone benefits, especially those on lower incomes. Reduces compliance costs and simplifies the tax system.</td>
</tr>
<tr>
<td>Expenditure/revenue estimates</td>
<td>Will lead to a reduction in tax revenue of $3.2 billion per year (this accounts for an estimated extra $590 million in revenue increases through increased GST, excise duties, and company taxes).</td>
</tr>
<tr>
<td>Economic impact</td>
<td>Increased efficiencies (less bureaucracy) and a positive economic impact.</td>
</tr>
<tr>
<td>Impact on inequality</td>
<td>Reduction in inequality because those on low incomes benefit proportionately more. If accompanied by progressive income tax bands, it would have even greater effect.</td>
</tr>
<tr>
<td>Administration</td>
<td>Simple addition to existing income tax framework.</td>
</tr>
<tr>
<td>Use elsewhere</td>
<td>The following OECD countries have tax-free thresholds: Australia (A$16,000), Canada (C$10,000), France (€5600), Germany (€7800). These can differ according to number of children, age, marital status, etc. Tax-free thresholds are often accompanied by higher top tax rates—Australia’s top rate of 45c for example.</td>
</tr>
</tbody>
</table>

### Impact on inequality
A tax-free threshold is widely acknowledged as an effective method to deliver a tax cut to everyone, while at the same time ensuring that those on very low incomes benefit most. The lower your income, the less of it you pay in tax, and if you earn under $10,000 you pay no income tax at all, freeing up more of your income for essentials.

For these reasons, a tax-free threshold is one of the most effective and simple measures to reduce inequality that can be achieved using the tax system.

### How much would it cost?
Introducing a tax-free threshold of $10,000 would reduce the Government’s revenue by around $3.2 billion per year. This could be more than offset by one of the other measures in this *Mind the Gap* package, a comprehensive tax on capital gains (excluding the family home). By 2025, a capital gains tax would earn the Government an extra $4.5 billion per year.

### Benefits for children
The introduction of a tax-free threshold of $10,000 would have great benefits for children whose parents and caregivers are on low incomes, including kids whose parents are on benefits. When families struggle to make ends meet, children often go without fresh fruit...
and vegetables, wet-weather gear, shoes that fit, and adequate heating. They also miss out on school trips, books, and sports events. A tax-free threshold of $10,000 would free-up caregivers’ incomes to better allow them to meet these basic needs.

**Benefits for other groups**

It is likely that introducing a tax-free threshold of $10,000 would have particular benefits for many women, Māori and Pacific peoples, and people with disabilities. These groups are all more likely to be on low and middle incomes.

Benefit payments are also taxed, so beneficiaries will gain from higher after-tax payments—representing the first significant increase in benefit levels in real terms since 1991.

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## Solution 2: A comprehensive capital gains tax

<table>
<thead>
<tr>
<th>Description</th>
<th>A comprehensive capital gains tax (CGT) on inflation-adjusted capital gains, realised at the time of sale. The family home remains exempt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Closes a major tax-free loophole. A CGT will reduce a built-in bias for capital gains investment. Will raise significant revenue while increasing the progressivity of the tax system overall.</td>
</tr>
<tr>
<td>Expenditure/Revenue estimates</td>
<td>Treasury advised the Tax Working Group (TWG) that by 2025 a comprehensive CGT (excluding the family home) would raise up to $4.5 billion per year. It would also increase revenue between now and 2025, although the per year figure is more difficult to predict in the medium term as it takes some time for the effects of a comprehensive CGT to be realised.</td>
</tr>
<tr>
<td>Economic impact</td>
<td>Improves efficiency by reducing a bias between savings and investment decisions. Will also eliminate current incoherent mix of capital gains taxation. Property taxes have the smallest detrimental impact on growth.</td>
</tr>
<tr>
<td>Impact on inequality</td>
<td>Highly progressive as property investors tend to be wealthy, thereby reducing inequality.</td>
</tr>
<tr>
<td>Administration</td>
<td>Possibly complicated to administer.</td>
</tr>
<tr>
<td>Use elsewhere</td>
<td>Nearly every country in the OECD taxes capital gains including the UK, USA, and Australia.</td>
</tr>
</tbody>
</table>

Our tax system relies heavily on income tax, and it doesn’t treat all sources of income the same. Our current tax system encourages a disproportionate amount of our wealth to be invested in non-productive assets like property due to the largely tax-free gains to be made. A capital gains tax on property investment (excluding the family home) would help restore some balance to the way New Zealanders are encouraged to save and invest.

Not only is the current absence of a comprehensive capital gains tax unfair, it contributes to inequality because wealthy people able to invest in property can enjoy the tax-free gains available to them. Housing prices increase as a result of the speculation, and rents are higher.

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13 For more on the inconsistent way we currently tax capital gains see this Treasury presentation: [http://www.treasury.govt.nz/publications/media-speeches/speeches/fiscalframework/sp-fiscalframework-5jun09-slides.pdf](http://www.treasury.govt.nz/publications/media-speeches/speeches/fiscalframework/sp-fiscalframework-5jun09-slides.pdf)
Impact on inequality
A comprehensive capital gains tax would take some of the speculative heat out of the housing market enabling first-time home owners a real chance at home ownership.

How much would it cost?
Nothing! In fact, a comprehensive capital gains tax (excluding the family home) would raise Government revenue by up to $4.5 billion per year in the next 15 years. This would offset the cost of the other solutions proposed in this Mind the Gap package.

Benefits for children
The raising of a capital gains tax provides the new revenue streams required to fund our other Mind the Gap initiatives to help children. Rebalancing investment preferences will, more generally, enhance the productivity of our economy providing more and better-paying jobs for parents.
Addressing energy poverty

“The economic situation has not been good for some time now and that is having a real impact on people,” said [Community Energy Action chief executive Bede Martin]. “The gap between the cost of electricity and income is getting wide and people have to make a choice between heating and eating. Heating comes second place in many cases.”

Age Concern chief executive Stephen Phillips said elderly people on fixed incomes had to make hard decisions every winter. "Last winter was dreadful. We had week after week of dreary, cold weather. That had an impact,” he said. “The impact of the cost of electricity to stay warm in the winter is huge. I think a number of people on limited incomes face difficult decisions every winter.”


Introduction

Warm, healthy homes are hard to come by in New Zealand. The phenomenon of “energy poverty” – when households have to spend more than 10 percent of their income to keep warm – is a growing problem.

Since the first estimates in 2001, energy poverty in New Zealand has increased by 44 percent.14 It is now estimated that 1 in 4 New Zealand households (410,000) spend more than 10 percent of their income on household energy, and don’t have access to affordable warmth.

Access to affordable warmth is a major inequality issue. People on low incomes often end up spending disproportionately more of their income on warmth than those on higher incomes. The rising number of people in this position has been driven by huge increases in the real cost of electricity relative to the meagre increases in real income. The international literature suggests that energy poverty is a major symptom of inequality. Research here in New Zealand correlates well with that literature.

However, affordable warmth is also a prime example of a problem which doesn’t just hurt low income families, but everyone: it’s also estimated that three-quarters of all New Zealand homes do not meet the World Health Organisation’s recommendations for a healthy indoor temperature. Too many of us live in cold, damp houses, and we all pay the cost in higher health spending. We all stand to benefit if the situation is improved.

Research has been undertaken on the cost of cold housing. This found that there are associated costs in excess of $500 million relating to energy, lost production, and hospitalisation. The research shows that cold housing leads to 50 admissions a day for respiratory illnesses, costing $54 million a year, 180,000 work days lost to sickness a year costing at least $17 million, and over $400 million dollars being spent unnecessarily on power (which clearly has environmental/climate change impacts as well).15

14 Lloyd, B. & Callau, M; Research Report: Retrofit interventions to enable healthy living conditions in existing NZ houses; (EECA 2009).
The long-term solution is to make every home in New Zealand as energy-efficient as possible. The Heat Smart home insulation programme (a Green initiative from our first Green New Deal package which the National Government picked up) is making progress. But it is not enough. Even at the increased rate of this retrofit programme, it will be twenty years before the housing stock is brought up to a basic standard, which is still inadequate to eliminate energy poverty.\textsuperscript{16}

With electricity prices increasing 40 percent in the last nine years, it’s clear that we urgently need to do something to rein in the high cost of electricity for householders.

\textsuperscript{16} Lloyd & Callau 2009.
Solution 3: Progressive electricity prices

Description
A two-step progressive pricing system for electricity. The Electricity Commission would bulk purchase, at wholesale costs, a large tranche of New Zealand’s renewable electricity, and retailers would pass the savings through to all households and businesses.

Advantages
All sectors of society benefit from generation assets currently in public hands, without distorting price signals on the margin that make the market function. Isolates our predominantly renewable generation from the cost of carbon, which will raise all electricity prices unless we change market configuration.

Expenditure/Revenue estimates
The cost of managing the bulk purchase contract is easily borne within the existing budget of the Electricity Commission.

Economic impact
Ever increasing electricity prices are a well known drag on productivity and real wages. Lessening the impact of price rises will boost both while still encouraging efficiency gains throughout the economy.

Impact on inequality
Applies across-the-board, but has the biggest positive impact on low-income households and households living in energy poverty.

Administration
The bulk contract would be managed by the Electricity Commission or its successor, with requirements that the cost savings be passed through by every retailer in New Zealand.

Use elsewhere
Japan and California are both jurisdictions that employ progressive pricing. Both are among the most energy efficient regions in the developed world.

We propose introducing a progressive pricing system for electricity in New Zealand.

Progressive pricing means that a low electricity price is locked in for every household and commercial user of electricity in New Zealand, up to a certain level. For many households this would be enough to achieve a safe, healthy level of warmth, at an affordable price. Any energy use above this level would be charged at a higher price, meaning commercial users and very large or wealthy private homes would pay proportionately more for their increased electricity use. All households and businesses would have an incentive to conserve and/or undertake energy efficiency measures.

New Zealand is unique in the OECD in that the state still owns the majority of our electricity generation assets—the big renewable projects that our grandparents built. This sets the stage for the state to introduce a progressive pricing regime like the one described.

There are many potential ways to structure a progressive electricity pricing system. To test progressive pricing’s impact on inequality and fuel poverty we built on investigations undertaken during the electricity reforms of the 1990s. Our research suggests a similar scheme would have a substantial positive impact on inequality. Back in 1992, a group of economists were commissioned to write a plan for

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17 A quantity that represents a modest percentage of the previous five years’ rolling average of electricity consumption would also be made available to all businesses in New Zealand. This allotment would be tradable and transferable should a business change retailers.
introducing progressive pricing into New Zealand. They called it Hydro NZ, and it won the support of local companies, multinationals and the National-led select committee in Parliament. Sadly, it was never acted upon, but we say it was a good option then, and progressive pricing should be thoroughly re-investigated for the modern era.

The Hydro NZ proposal is one of many progressive pricing options. One important point to note is that climate change is already impacting the severity and frequency of dry year events in New Zealand. Any proposal that relies heavily on hydro generation needs to take this into account.

A two-step electricity tariff, applied across all households and businesses in New Zealand, would allow all sectors of society to benefit from the generation assets currently in public hands, without distorting the price signals on the margin that make the market function. An additional benefit is isolating our predominantly renewable generation from the cost of carbon, which will raise all electricity prices unless we change how our electricity market is configured.

**Impact on inequality**

Under this proposal, a quantity of electricity would be made available at near cost price to every household in the country. There would be no free-riders, as everyone would pay the true cost for their electricity, but households who use very little would get some help from those who use the most.

As with most symptoms of inequality, the adverse effects of energy poverty are felt across the entire income spectrum, but the poorest households feel them most keenly. Because it would be applied across the whole economy, this solution would benefit everyone, but help our poorest households most of all.18

**How much will it cost?**

The infrastructure required for a Hydro NZ-type proposal already exists, meaning implementation could be very cheap. Under a Hydro NZ-type scheme, the Electricity Commission, or its successor, would manage the bulk purchase agreement with the state owned generators, and electricity retailers would pass the savings through to households and business via the ordinary power bill. The costs associated with the initial set up of the contract and alterations of billing software are modest and only happen once. The Government is best placed to make that investment, as the efficiency and productivity gains will flow back to it in increased revenues. Other progressive pricing options might require a bigger investment from the government or larger tariff increases for big electricity users, but we have not modelled these.

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18 A national survey by BRANZ as part of their Housing Energy End Use Project (HEEP) found only a small difference in energy use and thermal comfort as a function of income levels across the country (Isaacs, N.P. et al. 2006).
**Benefits for children**

Children especially need to grow up in warm, healthy homes. Many childhood illnesses such as asthma and other respiratory conditions, allergies, and infectious diseases are related to cold, damp, living conditions. Therefore this policy represents a considerable potential benefit to child health and wellbeing. This applies across the board, but especially to the children of low-income families.

**Benefits for other groups**

This solution would have a significant impact on the cost of electricity for small and low income families, meaning it would be of most help to beneficiaries and pensioners.

To the extent that pensioners, Māori, Pacific peoples, women, and people with disabilities are over-represented in the lower two income deciles, these groups will benefit significantly from the implementation of this policy.

As with households, this policy would have a positive impact on small to medium size enterprises (SMEs), which represent over 80 percent of the economy, and impact positively on our large, trade exposed industries. Farmers, for whom electricity is a major input cost, would be positively impacted.
**Income support**

“I had been working full time at the Warehouse and when I went on the DPB and took my son out of day care – he was four then and he was five months when he went in – I was shocked at the way WINZ treated me and how they made me feel: they made me feel useless, like I had never worked before. They made me feel that working was more important than my son. The case manager belittled me and did not understand the bills I had and all she could say was that I had to get a job and that there was no food grant for me and I had to go to a food bank. I felt humiliated. I had taken in all the paid bills to prove where all the money had gone...she made me feel like shit – even suicidal to be honest.”

—Rosanna, sole parent

“They make the process difficult, intimidating. I dread going in there. You feel like you’re begging and a lot of the time they’re judgemental ... moralistic and patronising. Like when I went in for a food grant after spending $100 on a non-subsidised programme for my son who has severe behavioural problems, I was told by the woman there ‘Well that was really stupid of you wasn’t it? Don’t do that again!”

—Bridget, sole parent

**Introduction**

Benefit levels have not risen in real terms since 1991. For many of our most vulnerable families, making ends meet on inadequate levels of welfare support is a daily struggle. Very often it is the children of these families who suffer the most. Despite introducing some measures which had a positive impact on inequality, the previous Labour Government made some decisions that have had detrimental effects, such as the decisions (outlined below) not to extend In-Work Tax Credits to beneficiaries, and to discontinue the Special Benefit. These decisions would be easy to reverse (the Green Party has Bills drafted already) and doing so would have a major positive impact on inequality, and help many thousands of low-income families to better meet their basic needs.

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19 These quotes are reproduced with permission from *Improving Work/Life Balance for Domestic Purposes Beneficiary Sole Parents Families Action Research* by Rotorua Peoples Advocacy Centre.
Solution 4: In-Work Tax Credits for all low income families with dependent children

**Description**  
Extend In-Work Tax Credit to beneficiary families and those who currently work insufficient hours to gain entitlement.

**Advantages**  
Will deliver the In-Work Tax Credit to the 140,000 poorest New Zealand families who currently do not receive it.

**Expenditure/Revenue estimates**  
A net cost of $300 million per annum after offsetting increased GST take and reduced Ministry of Social Development supplementary assistance.

**Economic impact**  
The policy will provide a better standard of nutrition and health among families on benefits and/or who are able to work only part-time, and enable them to better participate in their communities. It will increase consumption among this group, with a consequent positive impact on job creation and GST revenue.

**Impact on inequality**  
The extension of the In-Work Tax Credit to all families who meet the income test will address inequality by providing an additional $60 a week in disposable income to the 130,000 poorest New Zealand families who have up to three dependent children. The 10,000 poorest New Zealand families who have four or more dependent children will benefit financially to an even greater extent.

**Administration**  
Department of Inland Revenue / Ministry of Social Development. The Green Party has drafted a Bill to give effect to this change.

**Use elsewhere**  
Similar child tax credit programmes exist in Australia and the United Kingdom.

In 1996 the then National-led Government introduced the Child Tax Credit, which paid an additional $15 a week to low-income families with dependent children (as long as they met a work test and were not income-tested beneficiaries).

Despite initial criticism by the Labour Party that this discriminated against the children of beneficiaries, the Child Tax Credit evolved under Labour-led Governments into the In-Work Tax Credit component of Working for Families, which now pays $60 in addition to the Family Tax Credit to low-income families with three or less dependent children, and an additional $15 for subsequent dependent children.

The In-Work Tax Credit discriminates against children on the basis of their parents’ employment status because, like its predecessor, it is unavailable to families who are reliant on an income-tested benefit or whose parents or caregivers work insufficient hours (less than 30 for a two parent family and less than 20 for a single parent family).

As a consequence, approximately 140,000 of the very poorest families in New Zealand miss out on important financial support to meet their children’s essential needs. Children have the same needs whether their parents are in Government-sanctioned work or not, and shouldn’t be punished for their parents’ employment status. The narrow definition of “work” applied to the In-Work Tax Credit does not recognise that parents who stay home to care for their children are also doing valuable and important work.

We propose to incorporate the In-Work Tax Credit into the Family Tax Credit regime by extending it to all families with dependent children who meet the income test, regardless of their employment status.
The Green Party has drafted a Bill which could be introduced to Parliament immediately to give effect to this change.

**Impact on inequality**

The extension of the In-Work Tax Credit to all families who meet the income test will directly address income inequality by providing an additional source of income for 140,000 of the poorest families in New Zealand.

130,000 low-income families with up to three children will get an extra $60 per week, while 10,000 families with four or more children will get this $60 plus an additional $15 per child.

**How much will it cost?**

The total cost of extending the In-Work Tax Credit to all families with dependent children who do not currently qualify is approximately $450 million.

However, it is likely this will be partly offset by the reduction in families applying for other hardship assistance (such as Temporary Additional Support, the Special Benefit, and non-recoverable Special Needs Grants). This could offset the cost by more than $100 million.

Given that people on benefits and very low incomes inevitably spend almost all they earn on their families’ basic needs, there would be a further offset of upwards of $65 million in GST revenue (assuming GST is increased to 15 percent and stays there).

Taking these offsets into account, the net cost of this change will be approximately $300 million. It should also be considered in conjunction with wider changes to the tax system including the introduction of a comprehensive capital gains tax which would boost Government revenue by $4.5 billion over the next 15 years.

There will of course also be longer-term savings from improved health and greater educational attainment for New Zealand’s poorest children, which are difficult to quantify here.

**Benefits for children**

This policy is targeted at families with dependent children. Specifically, it will have major benefits for the children of New Zealand’s poorest families. At its heart, this policy provides extra income to allow the parents and caregivers of these children to better provide them with the essentials of life. This will likely result in a better standard of nutrition and improved health, fewer hospital admissions, and better educational achievement for some of our most vulnerable children.
Benefits for other groups

Māori, Pacific peoples, women, and people with disabilities are disproportionately represented among beneficiaries and people in part-time work. These groups, and their children, will benefit significantly from this change.
Solution 5: Reinstate a discretionary Special Benefit

<table>
<thead>
<tr>
<th>Description</th>
<th>Reintroduce discretion and provide better access to third tier welfare assistance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Will deliver third tier welfare assistance to 35,000 beneficiaries who currently should receive it but do not, and deliver it at a level that takes into account people’s individual circumstances.</td>
</tr>
<tr>
<td>Expenditure/Revenue estimates</td>
<td>$100 million per annum.</td>
</tr>
<tr>
<td>Economic impact</td>
<td>The policy will provide a better standard of nutrition and health among people on benefits and low incomes, and enable them to better participate in their communities. It will increase consumption among people on benefits and low incomes, with a consequent positive impact on job creation and GST revenue.</td>
</tr>
<tr>
<td>Impact on inequality</td>
<td>Māori, Pacific peoples, women, and people with impairments are highly represented among beneficiaries who are receiving or should be receiving Temporary Additional Support or Special Benefit. Pacific peoples are disproportionately highly represented among beneficiaries whose circumstances show they should be receiving Temporary Additional Support but are not receiving it. These groups will benefit significantly from this policy.</td>
</tr>
<tr>
<td>Administration</td>
<td>Ministry of Social Development. The Green Party has drafted a Bill to give effect to this change.</td>
</tr>
<tr>
<td>Use elsewhere</td>
<td>N/A</td>
</tr>
</tbody>
</table>

As part of its Working for Families package, the last Labour-led Government passed legislation replacing the Special Benefit with a benefit called Temporary Additional Support, effective from April 2006. Entitlement to the Special Benefit was retained for those who were already receiving it at that date.

The Special Benefit was a discretionary benefit of last resort that provided assistance to families and individuals who were receiving every other welfare entitlement and tax credit assistance to which they were entitled, but still had insufficient disposable income to meet their essential needs. It provided Work and Income with the flexibility to consider all of a family’s or individual’s circumstances, and pay a weekly top-up to ensure they did not become further indebted just from meeting their basic expenses.

With the introduction of Temporary Additional Support, the discretion was removed from top-up assistance. Temporary Additional Support is paid according to a strict formula set out in regulations which does not permit all of a family’s or individual’s circumstances to be taken into account. Furthermore, the regulations allow the Ministry of Social Development to pay Temporary Additional Support at a maximum rate of $20 a week less than the formula itself suggests recipients need to meet their essential expenses.
Research reveals that four out of every ten beneficiaries whose circumstances indicate they should be receiving Temporary Additional Support are not receiving it. Many of our most vulnerable families are not getting the assistance they need to survive.

We propose to abolish the highly regulated Temporary Additional Support regime and reinstate a discretionary Special Benefit. The Ministry of Social Development will be required to treat every application for any other form of supplementary income assistance as an application for the Special Benefit to ensure an improvement in uptake by those eligible. The Green Party has drafted a Bill which could be introduced to Parliament immediately to give effect to this change.

**Impact on inequality**

The requirement for the Ministry of Social Development to treat all applications for supplementary assistance as applications for Special Benefit will ensure the financial needs of the 35,000 beneficiaries who should currently be receiving Temporary Additional Support but are not receiving it are met.

The reintroduction of discretion will ensure that the individual circumstances of beneficiaries are properly taken into account in assessing the level of supplementary assistance required to meet their needs.

**How much will it cost?**

The additional cost of a 100 percent uptake by those eligible is estimated to be $90 million. There will be some additional costs resulting from the reintroduction of discretion. This will not be large if, as proposed, it is required that applicants’ individual circumstances must justify departing from a formula assessment, and is likely to be offset—at least in part—by reduced expenditure on one-off Special Needs Grants for items such as food. The overall cost is therefore estimated to be $100 million per year.

**Benefits for children**

Children whose families will be helped by this policy are likely to experience significant benefits. Additional income support for these families will free up more money for: food, leading to a better standard of child nutrition and improved health; early medical attention, resulting in fewer hospital admissions for illnesses remaining untreated; and other basic needs like warm clothes, shoes, and raincoats. As these conditions improve, so will educational achievement among the children of New Zealand’s poorest families. There may also be positive outcomes for the physical and mental health of some children who are less financially constrained from participating in sporting and community activities.

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Benefits for other groups

Māori, Pacific peoples, women, and people with impairments are highly represented among beneficiaries who are receiving or should be receiving Temporary Additional Support or a Special Benefit. Research also shows that Pacific peoples are disproportionately represented among beneficiaries whose circumstances show they should be receiving Temporary Additional Support but are not receiving it. These groups will benefit significantly from this policy.
Secure housing

“When I was an advocate for beneficiaries in Gisborne (2004-2008) the shortage of state houses and unaffordable rents in the private sector were huge issues, and they still are. I will never forget a grandmother who was living in a two bedroom house with seven grandchildren. The older boys and girls were in the bedrooms and she was in the small living room with three pre-school age children. Housing New Zealand said that this level of housing pressure would not get her on their urgent list as this kind of situation was common. I felt we were all failing her and her grandchildren.”

—Catherine Delahunty, Green MP

Introduction

Safe, secure, sustainable housing is fundamental to the health and wellbeing of individuals, families and communities. Everyone living in New Zealand should have access to housing that is suitable for their needs.

Housing is a basic necessity but a lot of vulnerable New Zealanders are either homeless or do not have access to adequate housing. This has flow-on effects on their ability to participate fully in their communities, curtails people’s educational opportunities, and ultimately can negatively impact on the job market.

There is a vast disparity in the standard of housing available to wealthy and low income New Zealanders. This is both a symptom of increasing inequality, and also a key driver of many other social and health problems. There is a vicious cycle where poor housing caused by increasing inequality actually leads to an accelerated widening of the gap between rich and poor.

The Human Rights Commission has identified crowding, dampness and coldness as key issues in New Zealand. There is also currently a state housing crisis in New Zealand with waiting lists of over 10,000 people. Many people living in rental accommodation also experience ongoing problems related to having to move regularly. This has been shown to have a damaging impact on education and employment outcomes. The Centre for Housing Research Aotearoa New Zealand estimates that 30.4 percent of at-risk and vulnerable young people are in unsafe and insecure housing.

It is difficult to estimate the total economic and social cost of homelessness, housing deprivation and poor housing in New Zealand. Such research is necessary as a matter of urgency given the scale of our housing-related problems. Nevertheless, experts in the field believe

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22 See HNZC website - [http://www.hnzc.co.nz/hnzc/web/rent-buy-or-own/rent-from-housing-new-zealand/waiting-list.htm](http://www.hnzc.co.nz/hnzc/web/rent-buy-or-own/rent-from-housing-new-zealand/waiting-list.htm)
there are likely to be a widespread and under-reported costs associated with inadequate housing. An Australian study has estimated the cost of young people’s homelessness alone at close to A$1 billion a year.  

Research has been undertaken on the cost of cold housing, which is detailed in the ‘Addressing energy poverty’ section above. This research found that there are associated costs in excess of $500 million relating to energy, lost production, and hospitalisation.

Allowing homelessness, crowding and substandard housing to continue unaddressed represents a breach of the basic human rights of children and their families, and an unacceptable financial cost to New Zealand as a whole.

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Solution 6: 6,000 new state houses

<table>
<thead>
<tr>
<th>Description</th>
<th>Building 6,000 new state houses in the next three years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Provides housing for some of those worst affected by growing inequality.</td>
</tr>
<tr>
<td>Expenditure/Revenue estimates</td>
<td>$2 billion over three years ($500 million in the first year and $750 million each for the next two years). There would be some savings to social spending as less accommodation support would be required from Work and Income. There would also be approximately 28,000 jobs created which would create significant tax revenue.</td>
</tr>
<tr>
<td>Economic impact</td>
<td>Approximately 28,000 jobs created.</td>
</tr>
<tr>
<td>Impact on inequality</td>
<td>Providing state and community housing will directly address inequality by providing suitable, healthy homes to some of our most vulnerable citizens. Increasing housing supply creates downward pressure on rents which helps make housing more affordable across the board.</td>
</tr>
<tr>
<td>Administration</td>
<td>Housing New Zealand.</td>
</tr>
<tr>
<td>Use elsewhere</td>
<td>Countries that have recently committed to increase state housing include Austria, England, Ireland, and Denmark. Others emphasise the construction of sustainable, low-emissions housing, including Germany, France, the Netherlands and the UK.</td>
</tr>
</tbody>
</table>

Solution 7: investing in community housing

<table>
<thead>
<tr>
<th>Description</th>
<th>Supporting the community housing sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantages</td>
<td>Build the capacity of community housing sector to provide innovative housing solutions to people and communities in need.</td>
</tr>
<tr>
<td>Expenditure/Revenue estimates</td>
<td>Investment of $200 million per annum. Some savings to social spending, and new tax revenue from around 3,500 jobs created.</td>
</tr>
<tr>
<td>Economic impact</td>
<td>Would create approximately 3,500 new jobs.</td>
</tr>
<tr>
<td>Impact on inequality</td>
<td>Providing state and community housing will directly address inequality by providing suitable, healthy homes to some of our most vulnerable citizens. Increasing housing supply creates downward pressure on rents which helps make housing more affordable across the board.</td>
</tr>
<tr>
<td>Administration</td>
<td>Housing New Zealand.</td>
</tr>
<tr>
<td>Use elsewhere</td>
<td>Similar community housing initiatives are underway in the UK, Sweden, Germany, Switzerland, and Denmark.</td>
</tr>
</tbody>
</table>

We proposed comprehensive investment in state and community housing in our first Green New Deal package last year, and have reproduced these recommendations here because of their strong connection to inequality.

We would begin with a state housing construction programme to build 6,000 new houses in the next three years. This would provide approximately 28,000 jobs in the building and related trades as well as help to meet growing housing demand.
The community sector, including iwi-based housing, has untapped potential to help provide housing to those in need, and to create jobs, including in particularly vulnerable areas and populations.

Because the sector is relatively new in New Zealand, there is a need to provide capital for infrastructure support as well as for housing build. We would invest in:

- Assistance with funding the infrastructure of the community housing sector;
- Investment of capital to enable the sector to build a minimum of 500 houses a year for each of the next 3 years.

**Impact on inequality**

Building new state and community housing would provide safe, secure housing for some of the most vulnerable people in New Zealand. The houses would be provided in a range of areas and communities to avoid creating marginalised communities vulnerable to further discrimination. The houses would exceed World Health Organisation standards for health and welfare, meaning happier households and fewer health problems.  

More state and community housing will also help to reduce costs in the rental market, and therefore benefit the significant proportion of the population who rent their accommodation. Many people would end up spending a smaller percentage of their income on housing, meaning more available to meet other basic needs.

**How much would it cost?**

The state housing building programme would cost an estimated $2 billion in the next three years: $500 million in the first year, and $750 million each for the following two years. The creation of 28,000 jobs (and resulting tax revenue) would offset some of these costs.

Investment to build capacity in the community housing sector would cost $10 million per annum for 3 years, while providing the capital to guarantee 500 community-built houses a year for 3 years would cost an estimated $200 million. Community housing investment would create approximately 3,500 jobs.  

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28 These estimates assume that Government investment would initially provide the full cost of new community housing. Over time as the sector’s capacity grows, community housing may become partly self-funding. The per unit cost for community housing is estimated to be higher than that of state housing because of the economies of scale involved. The estimated cost could include the purchasing of new land for community housing, but it is assumed that most community housing projects will utilise land that is already communally owned, such as church property or papakāinga land.
**Benefits for children**

As with many of the symptoms in inequality, poor housing can have a disproportionately harsh impact on children. The provision of more safe, healthy state and community housing will have direct benefits for children of low-income housing, many of whom are currently living in sub-standard and overcrowded housing situations. As noted in the ‘Addressing energy poverty’ section above, many childhood illnesses such as asthma and other respiratory conditions, allergies, and infectious diseases are related to poor living conditions. The provision of warm, safe housing would therefore help to reduce the incidence of these illnesses for many children.

**Benefits for other groups**

Māori, Pacific peoples, people with mental illnesses and disabilities, refugees and new migrants suffer disproportionately from a lack of suitable housing. The provision of quality state and community housing will directly benefit these groups.²⁹

Strengthening the community housing sector is also intended to benefit disadvantaged groups as the Government will be working with NGOs that work with, or as part of the communities affected. For example the Government will work with Māori providers to provide housing suitable to the needs of Māori.

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Solution 8: more secure rental tenure

Description
Provide a better framework for secure and affordable rental tenure.

Advantages
A significant proportion of New Zealanders rent their homes. Providing for long term rental tenure helps to build healthy communities and has benefits for educational and employment outcomes.

Expenditure/Revenue estimates
Funded out of existing baselines—no additional cost.

Economic impact
Providing for secure rental tenure will also address inequality by providing for better employment and education outcomes, and by enabling people to be able to participate more fully in their communities.

Impact on inequality
Providing for secure rental tenure will also address inequality by providing for better employment and education outcomes, and by enabling people to be able to participate more fully in their communities.

Administration
Department of Building and Housing.

Use elsewhere
Quebec in Canada has a system to secure rental tenancies with similarities to the one proposed. Ireland, Austria, and Germany also have measures to promote security of rental tenure.

A significant proportion of New Zealanders rent their homes. Many experience ongoing problems related to having to move regularly. As noted above, this has been shown to have a damaging impact on education and employment outcomes. Providing for long term rental tenure helps to build healthy communities and has benefits for educational and employment outcomes.

We would provide a better framework for the development of secure and affordable long-term rental accommodation by:

- Shifting the standard tenancy conditions towards more secure and predictable tenure arrangements;
- Providing a simple legal framework for long-term tenancies as well as short-term tenancies.

The Residential Tenancies Act 1986 (RTA) currently provides that a periodic tenancy can be ended by a landlord with 90 days notice without any reason having to be given for the tenancy termination. We propose that landlords be required to give a reason for termination of a periodic tenancy, and that the tenant has the right to contest the validity of such a reason before the Tenancy Tribunal. This will provide greater protection for tenants against retaliatory evictions and against eviction for reasons that are unlawful under the Human Rights Act.

The RTA also provides that tenancies are either periodic, under which either the landlord or tenant can give notice of termination at any time, or fixed term, under which the tenancy cannot be terminated other than for breach of the tenancy agreement before the termination date. We would legislate for a new type of tenancy, under which the landlord and tenant agree to a tenancy for a fixed term of one year or more, but with provision that the tenant can give notice of termination in special circumstances such as if the tenant is...
required to move for reasons of his or her employment or due to family circumstances. The tenant will be required to provide a reason for early termination of such a tenancy, and the landlord will have the right to contest the validity of the reason before the Tenancy Tribunal.

Both of these measures will give tenants greater security of tenure, while ensuring the interests of landlords are protected. They would be developed out of existing departmental baselines, meaning no additional cost to taxpayers.

It should also be noted that a significant number of rental tenants live in non-conventional housing situations such as boarding houses and caravan parks. Investigation is needed into options for amending the RTA to provide greater protection for people in these situations.

Finally, it should be noted that cold, damp houses and flats are a major issue for many people living in rental accommodation. The HeatSmart home insulation fund (negotiated between the Green Party and the Government) is beginning to address inadequate housing, but its benefits so far have been felt mostly by owner/occupiers rather than rental tenants. More work is needed to ensure rental tenants also live in warm, healthy homes. The Green Party has begun work in this area.

Overall, improving opportunities and living conditions for vulnerable and low-income people will have benefits for all New Zealanders. Building a fair society where everyone is valued and looked after will create greater social cohesion, and will help to reduce the social problems driven by inequality, like mental illness, poor health outcomes and violence.
Conclusion

A more equal society is better for everyone, especially our children. Every child deserves the best possible start in life. The measures in this package are not a comprehensive solution to the problem of growing inequality in New Zealand, but they are eight practical solutions the Government could implement immediately to start reducing the growing gap between rich and poor.

New Zealanders like to think of ourselves as an egalitarian nation where everyone gets a fair go, but the facts about inequality tell a different story. If we want to live up to our egalitarian ideal, it’s decision time. The Green Party has a vision of a more equal Aotearoa New Zealand, and in this package we’ve presented some practical solutions to help us get there.

Everyone has an interest in narrowing the gap between rich and poor. Addressing inequality will become one of the defining political issues of our time, and the Green Party is committed to lead the way towards a better and more equal society for all New Zealanders and their children.