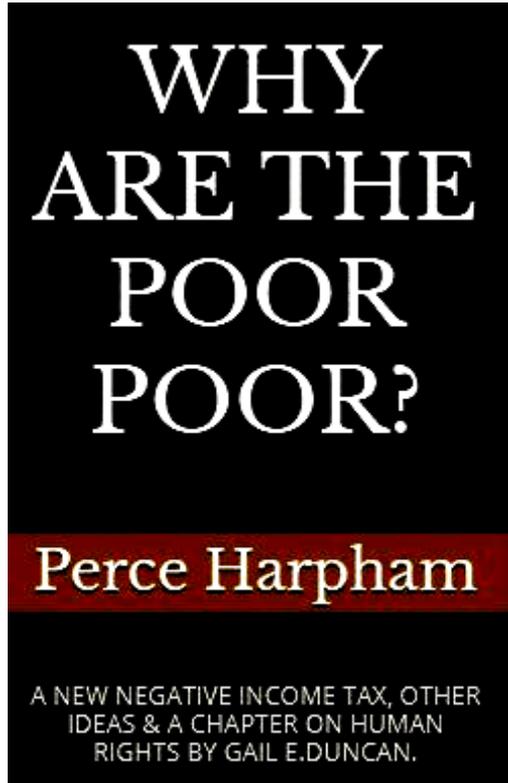


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## **Preface**

At 89 I think I am old enough to offer my opinion on all sorts of things. Hopefully my resume at the end of this book justifies that to some extent.

Based simply on what I believe to be the logic of various ideas I had hoped to get political action by talking to some influential Members of Parliament. But Politics is more a matter of emotion than of logic and there must be an obvious and large constituency for any major change to be legislated.

The purpose of this book is to bring the ideas to a larger audience in the hope that this will promote debate and, ultimately, action. To this end I am making PDF copies available free of charge – hold and click “Get my Books, Ebooks & Freebies” at the end of the table of Contents.

Thomas Piketty's book "Capital in the 21st Century" in 2014 was a compelling account of how concentrated wealth shapes the world. And how wealth inexorably increases inequality.

Various solutions have been promulgated for many decades. They are now gaining greater traction. Here, I will explore some of the systems used by Governments which contribute to the continued rise of inequality and will propose some solutions. Most of these ideas have had extensive coverage at a philosophical level but almost nothing has been published about the practical difficulties of the detailed design, transition from the present systems, costs, funding and political acceptability. This book is an attempt to provide a "sketch plan" of some of the work that is required to make the dreams come true.

In some cases I can make suggestions regarding the big problems such as why the Poor are poor – in other cases I only perceive the problems, perhaps vaguely. Often I have found my views to be better expressed by others. So I have used extracts from the work of others quite extensively. I have worked for some years on the potential and problems of Basic Incomes (here I have to thank Bill Rosenberg, Gail E Duncan, Hugh Stevenson and especially my wife of 65 years, Myra, and our children). In some form or another Basic Incomes have been advocated for several centuries and " Googling " Basic Income" at the time of writing yielded 582,000,000 "hits" so I have not attempted to provide a bibliography – just to acknowledge the sources of my quotations.

Much of my writing here is concerned with current problems in my home country of New Zealand. This is a lucky country and, at about 5 million people, it can be seen as a useful "pilot plant" for testing ideas which may possibly be of interest more widely. Certainly it is easier to contemplate being able to take new initiatives on the smaller scale.

I want to convey the need for urgency in transforming our current approach to inequality in the interests of rich and poor alike. By improving our systems we can provide a level of security for our people against the many uncertainties that lie ahead. I will talk of some of these uncertainties in later chapters. The Poor have fewer alternatives available to them. Already, with worldwide media coverage, they are beginning to react, if not revolt.

Previous financial recovery mechanisms have resulted in banks getting the benefit of "*Quantitative Easing*" so that they could lend money to people in order to boost spending power. Not surprisingly this resulted in a huge increase in personal debt and sowed the seeds for the next financial collapse. One solution is to give money directly to people, as with a Basic Income, so that they can spend it and stimulate the economy without going into debt.

And the effects of the Covid 19 virus will destroy people, companies and governments. There are now two different situations to be considered - the "normal" situation as it was before this pandemic and where we are now.

## **Summary**

A self-contained section at the start deals with the need for the urgent initiation of what i call the Harpham Income Tax(HIT) as a part of plans for economic recovery from the effects of the Covid 19 pandemic. HIT is all about reforming the current Income Tax system. HIT is a component of a more complete and larger payment package referred to as a Basic Income. The latter goes further to replace large parts of the current Benefit System with all its attendant problems of administration and surveillance etc. This requires a further tax and would take much longer to become operational. The HIT would be largely administered by the Inland Revenue Service and could be put into operation relatively quickly with the other features and payments added later. It will be shown that HIT will provide a modest Basic

Income and be substantially fiscally neutral or, possibly, even profitable for Government during the Covid 19 recovery.

The rest of the book after the first section goes into more detail using data from the more "normal" situation in (2015/16) that preceded the pandemic. This analysis will be relevant as the recovery progresses. It may well be the case that HIT is retained as the name for the larger change but the rest of the book following this first section will revert to discussing the more complete system under the name of Basic Incomes. With the more complete system the discussion "Repurposing the Cullen Fund" in chapter 7 suggests using this fund with Basic Incomes to support the Reserve Bank's efforts to stabilise the economy.

Part 1 is concerned with the more complete case of Basic Incomes including a HIT. And to use the BIs to replace our benefit systems with a more effective, complete and kindly system. The idea of the state making payments only to the "deserving poor" is heavily entrenched. The corollary is that there are the "undeserving poor" who should get no assistance. What can they, or the "working poor", do?. They are collateral victims they are and a cost for the repressive response to the victims acts if they are forced into illegal acts.

Poverty is very much a matter of comparison. The present size of the inequalities of both income and wealth and the widespread communication of this information has created a situation that requires people at all levels to be concerned with why the Poor are poor. The latter now realise that their poverty should be alleviated but that their established system of Government is not working for them. Hence the many huge demonstrations for different ostensible reasons. People everywhere want change – without knowing what change. Chaos is emerging in many countries. The stage is set for a new "- ism" competing with socialism, fascism, communism and capitalism. It is being labelled as authoritarianism. So the first chapters explore the consequences of inequality which mean that everyone who wants to maintain democracy as we understand it has an interest in the well-being of the Poor. "*Nobody is above the law*" is a catch-phrase of democracy. "Fairness for everyone" should be another. Exemptions from taxes favour particular groups or individuals. In a democracy when Governments are giving out money or benefits everyone should get their share. Tax exemptions also promote an avoidance "industry" whereby calling

something by a different name or complex manipulations can save tax payments.

By considering particular structural reasons for poverty, some suggestions are made for the reduction of financial inequality in New Zealand. Primarily this means using a common rate of tax for most incomes and paying Basic Incomes (BIs) at a realistic level. A sufficiently large BI also allows most benefits to be replaced - largely eliminating bureaucracy and surveillance.

Basic Incomes are exactly that. They are basic payments made to everyone regardless of their wealth or income. This is the case with Superannuation which is paid to those aged 65 and above. It needs to be at a higher level than for those of working ages. So Adults 18 to 65 would have a different level of BI while children/ teen-agers would have a lower level again.

A chapter based on the slides from one of Gail E Duncan's presentations succinctly establishes WHY we need Basic Incomes (BIs) and that they are a human right which is incompletely recognized under our current legislation. The latter treats those who are unemployed but whose partner is employed as "undeserving" of benefits and similar anachronisms.

This is followed by a discussion of the social improvements that can be expected from BIs, examining the principles to apply to BIs and HOW to implement them. Paying for the additional cost is explored. Some possible tax changes are considered with preference given to a flat Income Tax at some level followed by increments at intervals applied to ALL of the recipient's income. And an accompanying Resource Tax collected with local body rates as a levy on the improved value of properties. The net effect of the combined BIs and Taxes as well as the problems of transition are discussed.

By applying a tax on the value of properties one would expect the resources of, land, materials, construction effort, infrastructure and maintenance to be used more carefully. It is appropriate to call such a tax a "Resource Tax". It will bear more heavily on those who use the earth's and human resources more heavily. It is suggested that this tax can be used to discourage the building of large properties so as to reduce emissions and free resources for building more houses.

**Suggestions are also made for incentivising single "living-alone" Superannuitants to join with others so as to free more homes and help alleviate the "housing crisis".**

The transition from present benefit and taxation systems to the new, much simpler, systems are non-trivial and some of these issues are outlined for a transition in "normal" times.

At a larger level the inadequacy of the Justice and regulatory systems are explored. Their structures and cost could almost have been designed to oppress the Poor who are not served well by present systems. The suggestion is made that civil disputes should be resolved by an expanded Disputes Tribunal and Arbitration instead of using the same costly and lengthy processes as for criminal cases.

Deficiencies in local government are discussed. These centre on the escalating burden of regulations administered in many cases by council officers who endlessly reject proposals without stating why and without constructive suggestions. This has converted New Zealand from a Do it Yourself nation into one forever filling in forms, ticking boxes and finding high priced specialists to put their mark on details.

Part 2 is largely commentary on a miscellany of difficult, financial, social and global issues which importantly, if less obviously, bear upon the Poor. A need for self-reliance in nations is developed but mechanisms for achieving it are not. However there is a recommendation for considering having general tariffs based on the level of unemployment in each country and eschewing targeted tariffs.

There is a discussion of the possible transformative effect for New Zealand of making HIT payments or the later Basic Incomes (BIs) through Kiwibank (essentially Government owned) thereby giving Kiwibank, in practice, a massive working capital injection and moving towards the goals of the New Economics advocates who want to have Government issue debt instead of the Banks.

(The New Economics advocacy rests on the fact that whoever creates the document, book entry or coin etc uses their reputation to assure any holder that such an issue can be used as "money" for making multiple trades and will always be redeemed by the issuer providing value for the "money" even if this was only in fact a book entry and is redeemed by another book entry.

The debt created by the issue will always have to be repaid along with interest. So, when the debt created by the issue is redeemed then the issuer will be better off by the amount of the interest. Further, with an expanding economy more money is always required and will

remain in circulation. So the issuer may never have to return value for this extra money. It is a fascinating idea and could be a great way to help finance Government.)

Finally emphasis is given to the need for New Zealand to have a sense of responsibility as a world "pilot plant" as well as the courage to once again be the first to move on difficult issues

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## **Harpham Income Tax for Covid 19**

### **What's in a Name**

.There are many names for variations of the concept of universal payments to everyone. There can be huge confusion and dissension between advocates whose intentions are identical. "BI" is often used with a leading U meaning either "Unconditional" or "Universal". These are attributes of the same thing but "Universal" is often taken to mean that Superannuitants and Adults will be paid the same. Hence others and I have dropped the U part.

Few of the advocates have thought through to the implementation of their concept. Rather than set up a new department the payments should be made through one of the existing departments which already have much of the necessary infrastructure. My choice would be the Department of Inland Revenue which currently makes refunds as well as collecting Income Tax. It also has a database covering most of the individuals who would have to be registered. There is a natural association between any form of Basic Income and the Income Tax that will, at least partially, pay for it.

The Harpham Income Tax (HIT) leads to the payment of a modest Basic Income for adults but while it should be a component of any BI system it is only a component and BIs should ultimately be larger and the extra be funded by a different tax. Preferably one that will reduce inequality. Therefore I do not want to call the HIT a Basic Income with the implication that a HIT is all that needs to be done

There are otherwise intelligent people who refuse to think about Basic Incomes saying things like "Basic Incomes are either too large ( they talk of \$22,000/yr) to be sustainable or too low to be useful". If the generalization was true then we should immediately cease all Job Seeker benefits which are now up to \$13,000/yr. Based on 2015/16 data and allowing for inflation \$13,000/yr would be the figure chosen

below for the Adult (18 to 65) Basic Income when the economy has recovered to the stage where a Resource Tax can be established. But, in the meantime, I will explain why the Harpham Income Tax (HIT) yielding a Basic Income of \$9080 per year is needed to correct the long standing unfairness to the poor which is built into our Income Tax system. Also, how this correction will be paid for so that it is fiscally neutral.

The HIT component is particularly suited to the present uncertain time. This is because the combination of the HIT payment with a predominantly flat tax corrects a long standing injustice. I can recall paying, I think, 65% tax on the part of my salary over \$70,000/yr. In those circumstances it was not entirely unreasonable that I also then enjoyed all the exemptions from the top rate which applied to those with lower incomes. But when the top rate was whittled down to the present 33% while the top salaries rocketed up then the unfairness became offensive and the correction is long overdue. Also to go to the level of Basic Income required to carry out the improvements needed in our benefit systems another tax would be required. This would be unwelcome. But the self financing HIT, as I will explain, should be welcomed by almost everybody.

This pandemic has, for the time being, totally invalidated much of the arithmetic and data on which the later analysis in this book relies. However the results of that analysis will remain largely valid whatever the "new normal" becomes. So I will leave that analysis and reasoning unchanged and in this separate stand-alone section will show that the HIT ideas for reform of our systems are immediately applicable to our recovery from this shock. As usual it is the poor who are most affected by any disaster. This Covid 19 disaster will force many changes to the world's established systems. It is my hope that some of the "fringe" or "wacky" ideas will now prevail to lead us from the present confusion, inequality and uncertainty into a new normal which gives the poor the dignity which is their human right.

Since Covid 19 has indirectly caused the collapse of the economy there are suddenly many people and businesses without work. The 2020 and later Budgets are boldly planning to take advantage of the opportunity to build much of the infrastructure that we badly need for the future and thereby to get companies operating and many people back into work. It is also providing for temporary payments to many displaced workers, for free training and many other well thought

through provisions. It is an emergency response to get us through the immediate economic collapse.

Instead of seeking a multiplicity of modifications to many of our present systems in order to recover from the Covid 19 disturbances I will show that HIT will contribute to the success of these plans. Other specific payments will still be required for various purposes but can be lower with a functioning HIT

Descriptions of various matters in this section will be repeated or elaborated in the main body of the book.

### **A Major Change In Our Financial System**

Government has done a great deal to improve the functions of Government while working within the "neo-liberal" constraints such as keeping total Government expenditure within a nominated percentage of Gross Domestic Product (GDP). I have never found a coherent reason for such a choice but somehow it has become sanctified in the minds of many. Government has now budgeted to abandon this concept and to do what a Government should always do – namely to use taxes and finances for the long term so as to use the various resources available to accomplish what is required for the physical and well-being of its citizens. This is a major change to make the economy serve the people rather than vice versa.

This is being done in a way that holds hope for the future. Without the pandemic change it was clear that there would soon be a financial crash brought about by the same financial systems which have produced such crashes with monotonous regularity and which have increased the inequality between the many and the few in terms of income, wealth and power. This inequality has been creating the conditions for failure of democratic systems and the emergence of authoritarian "leaders". Many thinkers have been proposing changes to our financial systems to control and reverse these conditions.

Amongst the changes being discussed are two which are closely related. These are "Positive Money" and "New Economics". Both seek to restrain the power of the banks and big corporates.

At root is the peculiarity that banks are allowed to lend many times more than they could pay if all their promises to pay were to be called up. If an ordinary company gets into this position its directors can be liable to the company's creditors for "trading while insolvent". This difference means that banks are able to effectively "create money" up to the "bank ratio" multiple of their assets. And then to lend this

money and create debts which have to be repaid with interest. Many of the financial thinkers consider that such creation should be a prerogative of Government only.

One of Geof Bertram's recently delivered papers provides an easily understood understanding of the complexity and practicality of these issues. Particularly for a small exporting nation such as ours. See the video or slide presentation hyperlink at Ref 1 (meaning no 1 in the list of References at the end of this book).

Another major change is a clear demonstration that the new financial ideas are being applied in an intelligent fashion by the Reserve Bank of New Zealand (RBNZ) and Government. This requires an understanding of the Reserve Bank and its operations. The RBNZ is a "Statutory Body" which means that it has powers given to it by its own statute (law) to determine "Monetary Policy" as distinct from "Fiscal Policy" (taxation) which is controlled by Government. It has no shareholders and exercises its powers independently of any direction from Government although it is part of Government's Balance Sheet and Government gets its profits or losses. Its function is to regulate banks, to keep inflation within the bounds of 1 to 3%, to monitor the exchange rates and unemployment. It does these things by direction in some cases and by lending or borrowing or selling or buying bonds and overseas currency. The RBNZ sets the interest rate at which it lends "money" rather than this being determined by competitive market forces. In many respects it is the Bankers Bank.

In the same way that Banks are allowed to create "money" by lending up to their bank ratio multiple the RBNZ is allowed to give credit (issue debt) up to a defined maximum.

This is all a somewhat subtle way of preventing Government from itself creating money without limit or anyone knowing about it. The limitation is intended to prevent the runaway inflation that has afflicted many nations.

My understanding of the details of our complex system is very incomplete but I see hope for the future in the combined actions of the RBNZ and Government. Reacting to the Covid 19 threat to the economy in its own way alongside Government the RBNZ has taken the necessary steps to increase the maximum debt it can issue. This means that the RBNZ will be able to buy Government bonds to what

appears to be the extent necessary to allow Government to fund its deficit budget with the minimum of overseas borrowing.

Since much of the Government's budget deficit will be spent on imported capital goods and other necessary imports then to the extent that we do not earn sufficient overseas funds by exporting Government will have to borrow overseas funds either directly, through the RBNZ or through the banks which do their own overseas borrowing.

But Government borrowing from the RBNZ, or selling bonds to it, is essentially Government creating its own money as advocated by the new economic thinkers. The balance of Government's borrowing from the RBNZ will show how much new money has been created. But the country as a whole does not owe this amount to outside agencies so that unlike Greece and other countries it is sheltered from future austerity demands from the overseas or local creditors. And if the overseas borrowing allows us to increase our net overseas earnings then it will not be a "debt burden".

The "creation" of money by the RBNZ is now known as "Quantitative easing". Who gets the money is then very important. It seems to have escaped widespread notice that following the GFC when banks were financed by "Quantitative Easing" and made credit easily available then this stimulated the economy because people borrowed from the banks and spent accordingly. The total of personal debts skyrocketed. So did defaults - setting the scene for the next crash. But the collapse of our financial system has been pre-empted by Covid 19.

Thus it is important that the created money be, in some way, directed to people as individuals thus allowing them to spend and stimulate the economy without them acquiring debt in the process.

Also see "Repurposing the Cullen Fund" in chapter 7"

### **Negative Interest**

I cannot imagine any normal bank lending money with a negative interest rate and cannot understand why, considering the huge advantage they have with their bank ratio multiple, the idea should be entertained. How would a state-owned organisation justify making such gifts to private shareholders? It is just such gifts that exacerbate inequality.

But when loans are repaid they are usually repaid with interest. So, if the rate of circulation remains the same, more money is continually

required to keep prices steady. It seems to me that a case could be made for the RBNZ to buy Government Bonds at a negative interest rate approximating the average interest rate so that Government can keep paying for work that it commissions without increasing its notional debt level. Or raising taxes.

### **Hapham Income Tax for Recovery**

It will take time for many of the budget provisions for Government expenditure on physical and other projects to be carried out and paid for so that the money enters other parts of the economy. Hence the provision of short term assistance to businesses and people alike.

But there is a need to provide for long term security so that individuals can see their future with some confidence, can survive, plan, train and spend, spend, spend. Many need money now and the market cannot function if people have no money.

The Budget provisions are necessarily at a high level. Individuals will still face the possibility, regardless of their wealth or position in the income hierarchy that they may be suddenly left with no income at all through redundancy or otherwise. This is a frightening prospect. If everyone had even a small Basic Income people could be clear that they would never be in this position. So the HIT component of what will later become a more comprehensive income will be valuable.

A Basic Income (BI) is defined as a regular payment to everyone in a particular age group regardless of their income, wealth, sex or relationship etc. Superannuation is a great, if not perfect, example. To avoid misleading people BIs should be tax free and not counted as income for tax purposes.

Basic Incomes can let us escape from the horror of "targeting" and classifying some people as "undeserving poor". The latter get denied any Government benefit. What are they supposed to do in order to live? The higher the Basic Income the more benefits and hardship allowances can be dispensed with.

Later in the book I give an analysis which, based on 2015/16 figures, arrived at a BI for adults in the 18 to 65 group of \$11,000/yr which allowed many of our benefits to be replaced without any loss to the beneficiaries. This required the HIT plus a Resource Tax which I will describe later. Scaling up from 2015/16 to 2020 would increase the Adult BI to about \$13,000/yr paid for in the same way. So a HIT yielding \$9080/yr would be a good start but the further taxes would be difficult at this time.

Basic Incomes have the merit of injecting money into the economy by giving it to people directly. Their spending will then inevitably work its way through to businesses, banks and the like. "Trickle down" has failed the poor. "Trickle up" will let the market work and allow people to make their own judgements on what is the best use of money for them. They will get a new level of freedom.

Providing loans, while useful temporarily, does not necessarily provide a satisfactory long term effect. It has the danger that businesses and people continue until the owner of the debt calls it in, for whatever reason. Many, particularly struggling small businesses, might be well advised to sell-up while they can get something for their assets. Even an interest-free loan could result in them continuing into bankruptcy. There could be a bankruptcy "pandemic".

I, and others, have long advocated a careful lengthy approach for Basic Incomes. In this approach one would set up an expert study group to engage the public in considering the level of payments to be made, the benefits to displace, the taxes to levy, and the problems of transforming both the tax and benefit systems. Select Committees and all the usual Government procedures would then follow.

But recovering from Covid 19 is urgent and we need to get a good system of BIs for Adults into operation at some level quickly. And to evolve them from that point. The arithmetic is complicated by the uncertainty in census information and future economic health affecting the tax take. It is important that the changes to be made now will remain for the long haul in order to provide the security that is needed for recovery.

### **Unfair Income Tax Increases Inequality**

One key to the long run success of BIs (and for social acceptability) is to make our Personal Income Tax system fair. If we believe that the better off are paying their fair share of tax then we do not have to worry about means testing and all the funny little rules that currently surround any payment by Government to people. And if the wealthy are getting the same payments from Government as the poor they should understand the fairness of correcting the structure of our Income Tax system. Many will realise that they may, without warning, suddenly join the ranks of the poor, or the relatively poor. For example a person with most of their wealth in Air New Zealand or other companies which will by-pass dividends in order to survive. Such people can suddenly find that their income has ceased.

Consider that in our current Income Tax system on an income of \$14,000/yr, because the tax rate up to that level is only 10.5%, the saving from the exemption from the 33% rate is \$3,150/yr. Then this saving is added to by the rate above \$14,000/yr up to \$48,000/yr being 17.5%. Then at \$48,000/yr the rate goes up to 30% until the top 33% rate at \$70,000/yr. The savings are cumulative so that at \$70,000/yr the saving becomes \$9080/yr. And this saving is the same for all higher incomes. At the higher level one gets all the exemptions available to those at the lower level and these higher savings are simply not available to those who earn less. What a wonderful way to promote inequality!

In the 2020 election process it is sad that the National Party was, as in 2017, attempting to deal with the problem of “Budget Creep” due to increased income pushing the lucky recipients into a higher tax bracket. National proposed to exaggerate the very problem that is so unfair to those with no or low income. The more you have the more you get. National’s proposal moved the steps from 14,000 to 20,000, from 48,000 to 60,000 and from 70,000 to 90,000. Below \$14,000/yr there is no difference but on top of the present savings from the current exemptions the additional amounts at the different levels of income would be - with no income or up to \$14,000/yr nothing; then on \$20,000/yr and up to \$48,000/yr it is \$420/yr; then progressively up to \$64,000/yr it becomes \$2,420/yr; rising progressively again so that on \$70,000/yr it is \$3,120/yr and finally on \$90,000/yr and above it is \$3,720. These tax cuts would do nothing for the more than 20% who earn less than \$14,000/yr. Unfairness and inequality would be increased.

The other parties, with the exception of The Opportunities Party (TOP), also proposed making changes to the Income Tax system while retaining the stepped structure. The Green Party proposed to exaggerate it while having the courage to propose a Basic Income which would ameliorate the effects. They proposed to pay for the BI with a new Wealth Tax. TOP, a small party, did propose to eliminate the steps by going to a flat tax of 33%, having a BI of \$13,000/yr and imposing a property tax by treating the equity in properties as income earned at a risk-free rate of return on that equity. I applaud this approach with some minor reservations. But, as with the Green’s proposal, I do not think that it is wise to be quite so ambitious in the

current pandemic situation and to impose completely new taxes in order to start with this level of BI..

If we currently had a tax rate of 33% but paid all those in the 18 to 65 group \$9080/yr free of tax then the people paid \$70,000/yr and over would be no worse off and everyone on a lower income, or no income, would be better off. In fact over 82% of people would be better off. So I take this HIT as the starting point for exploring Adult Basic Incomes (BIs). Superannuitants already get what, after tax, is essentially a Basic Income at a much higher level for the good reason that they are beyond working age for the most part. And Working for Families has been improved for Children and Teen-Agers. Getting BIs for the children to the carers for children on behalf of the children would help further.

The Adult group is some 4 times larger than the Superannuitant group so the financing problems are larger depending on the size of the Adult BI. The immediate pressure is to get something to the Adult group and to correct various unfair anomalies in the other two groups at a later stage. I refer here to such peculiarities as paying different rates of Superannuation depending on marital or other relationships. To begin with we can continue Working for Families and Superannuation effectively unchanged either as to funding or delivery.

### **A Modest Adult Basic Income to Start**

In order to get money into the economy quickly our aim should be to start with only the Adult BI. The fairness argument regarding Income taxes advanced above suggests setting this initial Adult BI at \$9080/yr tax-free with a 33% tax rate on all income for everybody but not on Superannuation itself or on Working for Families payments. It will be shown below that this is close to fiscally neutral or even positive under the present circumstances.

A basic principle to observe in any transformation is to at least retain the income of any present beneficiary. So reducing present benefits in order to pay for the Adult BIs is not tenable. However if the benefit is above the BI then there is no reason why they should not have the BI and the benefit be reduced accordingly. And if the benefit is below the level of the BI then it can be abandoned along with the accompanying bureaucracy, surveillance and harassment.

We already have a substantial rate of unemployment and at the current top rate of "Job Seeker" benefit there will be many getting

\$13,000/yr after tax, so making this figure the adult BI is very appealing as we could then get rid of some other benefits and much of the bureaucracy. But I suggest that initially, because of the Covid 19 effects on the economy, we should start with the 9080/yr and 33% arrived at above. Otherwise we will have to impose the Resource or other new taxes in order to meet the costs of the BIs and it would be better to delay such taxes until the recovery is well under way.

The Adult BI must include the "missing people" such as house-partners who currently are denied benefits because they have a partner with a job and the "undeserving poor".

Superannuitants would not have their after tax Superannuation income changed by this change of rate. Any "other" ( non-super) income would all be charged at the new rates. Working for Families payments would also be adjusted for the fact that the carers were getting the adult HIT. The claw back for earning would be abandoned as the income would be taxed at 33% anyway.

The effect of these changes would be that there was about the same cost for Superannuation and Working for Families as at present and payment arrangements would not change. Other benefits for adults who are below \$9080/yr would be simply replaced by the HIT. And those above the Adult BI would be reduced by the amount of the HIT. Before looking at the balance of costs of such HITs and the changed Income Taxes we need to consider the special circumstances in which we now find ourselves.

### **Government Will Get Money Back**

I once asked Jas Mackenzie (he had a distinguished Treasury career as an economist and then as Secretary of Labour – sadly he died on 19 April 2020) how much Government would get back if it gave away more money. To my surprise he answered promptly that a study had been done and concluded that Government would get back 1.6 times what it paid out. He quickly pointed out that this was on the assumption that there was unemployment and available productive capacity. These are, of course, the very conditions we fear will apply in the immediate future due to Covid19.

The Treasury's "Total Outturn" data for the Year to Date to September 2020 gives some support to this idea. From about March of 2020 Government responded to the Pandemic by abandoning its Budget Responsibility Rules and pumping money into the economy.

The GST collected by Inland Revenue Department (IRD) is shown in the Treasury Report as being some \$1,324million ahead of forecast.

There is certainly the possibility that some of the money paid out will be returned to Government very quickly. Our Goods and Services Tax (GST) applies to all purchases with no exceptions. So for every dollar spent then GST at 15% should return \$0.15 to Government. There is a problem because GST cannot be collected from various illegal activities, "mates rates", "cash jobs" and exchange of services without financial transactions etc. And smaller companies do not have to register to pay GST. But assuming that such activities consume one third of the GST payments then government would still get back some 10% of what it paid out. But if the Government pay out came from taxation it would have been spent anyway so there would be no recovery for Government. However the pandemic crisis has changed the situation.

To support the economy Government is acting in an unprecedented manner making loans and support payments on a massive scale using funds derived by the Reserve Bank (the RBNZ) buying Government bonds in order to provide this "new money" which has not been taken away from anyone who would not have spent it because they never had it. And this new money now exists. It can be used by the recipients as they see fit. And even if the Government does not get its full GST when it is first spent the total amount remains in circulation. And each time it is spent the Government gets its 10%.

Some actions (as well as putting it under a mattress) stop the circulation of this new money. The most obvious is if it is deposited in a bank. Then, unlike ordinary businesses, the banks are able to lend more than they have without being declared insolvent. If the operative ratio is 8 then they are able to "create money" and lend 8 times more than the deposits. This could give the Government 8 times as much GST as they would have got from the taxpayers initial spending. And the new money made by the banks can also circulate. That depends on people being prepared to take on the debts needed for them to get the money from the banks in order to spend it and restore the economy. (The increased personal debt burden would be likely to lead to further financial crashes.)

The reasoning about the returns to Government are, of course, a great simplification especially as present benefits are either spent or

saved and many of such benefits would be subsumed into the HITs and spent or saved as before. Nonetheless any “new money” paid out could be returned to the Government both through the mechanisms above and the boost to economic activity – especially in times of a downturn in activity. It should help to cover some shortfall in the difference between the cost of the \$9080, the income from the amended taxes and any errors in the calculations shown below. Indeed, with the increased Income Taxes being paid by the recipients of the HIT it appears possible that the HIT would be a profitable investment for the Government – certainly until the economy recovers and the Government ceases to issue bonds and borrow money.

I will go into more detail below about the cost, if any, to start with a HIT of \$9080/yr. But we will not want to continue to sell bonds to the Reserve Bank and, as the economy recovers, profits, employment and Government's other tax revenues will improve. With the HIT in place the time will come to raise the HIT payments to a higher (Basic Income) level that allows most of the current benefit structure to be abandoned and the problem of inequality to be addressed. My suggestion then is that the BI/HIT be raised to \$13,000/yr, and something like a Resource Tax of between 0.5% to 1% of Improved Property Values used to also finance several other changes.

For this purpose we need to have the local bodies setup to collect the Resource Tax at the same time as their local body rates. We could then make superannuation payments tax free and, free of any marital arrangements, as well as set all of them at the same rate as the present living- alone rate after tax. And abolish the present Working for Families by having a different BI for all children and teen agers. Thus there would be some additional payments at the same time as the Resource Taxes start to bite. Inequality of accumulated wealth would start to be reduced. At this point the whole system becomes the one that I have earlier envisaged – probably with less difficulties of transition from the old systems.

### **Getting Started**

In my earlier work I have assumed sufficient time to study the problems and to put in place solid safeguards against mistakes and misdemeanours. But the urgency now means that implementation of a robust system needs to rest on current foundations which are currently imperfect. They can then be modified at leisure. The current unemployed should be able to start almost immediately on the NIT

and 33% tax rate on other income. These people are already identified and being paid. They would still have a smaller unemployment payment to keep their total Government payment unchanged but stand down periods and the “poverty trap” etc would disappear.

The people who are going to be paid the HIT and who will also pay the new Income Tax need to be properly identified. There is currently no such register. We are fortunate that Internal Affairs have their Realme identification system operating and proven at a reasonable scale. It could be progressively enhanced with facial recognition systems, voice prints and fingerprints. But to begin with we need to make use of all the existing databases to establish a close to perfect and complete database of all those who qualify for the Adult (18 to 65) HIT, hopefully with no duplicates and no omissions.

At present there are many Government Databases – the Electoral Roll, Inland Revenue, Social Welfare Department, Internal affairs (passports, civil unions, births, deaths and marriages etc) as well as many others in Corrections, Customs, Transport and the like. Possibly these should all use Realme as the primary identifier and be cross-linked in many cases using this identifier. The many duplicates, multiple names and addresses will need to be purged. And decisions will be required on the treatment of those on working visas and the like with continued payment of the BI possibly being dependent on their continued return of Income Tax to IRD as well as still being alive and remaining in the country.

Short run, the IRD's database is likely to be the closest approach to having a comprehensive list of all NZ residents who would get the Adult BI. The 2018 Income Bands table from IRD lists 3,860,180 "customers". Statistics Dept gives the NZ population as at December 2019 as 4,951,500 with about 3,200,000 adults in the 18 to 65 age range. So it seems to me to be likely that the IRD will have a very large proportion of the Adult 18 to 65 group which would be eligible for the Adult BI. IRD will also have addresses and ages on record. More recent figures put the total population at 5,000,000 so let us increase the number of adults to 3,250,000 for current calculation.

The logistics of setting up this new database and the associated payment systems will largely determine the time needed to start HITs. The new Income Tax has to be collected and the new BI paid out. Clearly IRD will collect the money much as it does now. But the

recipients need a convenient bank card system for withdrawals from their accounts. And IRD can well pay into bank accounts just as it does now.

With payments from IRD channelled through KiwiBank, as I have suggested elsewhere, then Kiwibank will have to produce and distribute some 3,250,000 bank-cards as well as to coordinate with IRD, Internal Affairs and others. There is therefore a possibility of getting a substantial Adult BI into place quite quickly using the IRD database as a starting point for the data matching, leading later to the full Realme database and then to add to it over a few months as "missing people" register. This database would be expanded by cross matching with others and in all cases there would have to be validation by email or otherwise (as is done with electoral rolls) and similar cross checking as with passports.

For those who were still missing they would have to enrol with IRD by getting their Realme identifier and their tax number. This responsibility would be advertised and they would be entitled to have their payment backdated to the start of the BI. Existing Realms, subject to not having been recorded as dying or migrated etc, would have to be renewed in perhaps 9 months, and again, maybe, every 3 years. There are currently 86,130 people listed by IRD as having no income. There are also many who, as a human right should get payments from the Government but who currently do not. An example is a woman bringing up children but who is not eligible for a benefit because she has a working partner. Those who don't fill in required forms and identify themselves or accept the identification process don't get the BI.

The process set out above could well be truncated in the interests of urgency. There will be people who currently have two IRD identities in order to split their income to use more of the exemptions. They are unlikely to also have two National Health Identifiers (NHIs) under the same names. So many people could be started on the new tax rates and BIs with certainty very quickly. And it will be in the interests of most people to join the system as soon as they can – with the "mopping up operation" to follow after some months.

### **The Cost for a HIT of \$9080/yr**

Note that all cost calculations need to be reworked. Forecasts will be needed of the new situation that will exist with increased unemployment, possibly reduced wages and salaries, reduced taxes

and property valuations. However for what they are worth the available numbers are interesting. Particularly considering further taxes which could be considered before moving to the BI level of \$13,000/yr with its attendant Resource or other tax.

The IRD 2018 taxable Income bands show 3,860,180 people with a total assessed tax of 35,706million dollars. If, as I suggest, the income tax was levied at a uniform rate of 33% on all income the assessed tax would be \$58,201m. So this change would net roughly 22.5 billion more. This would be increased by about 1.4bn by raising the rate above \$180,000/y to 39% and applying it to all income. This new step is now being established by the Labour Party Government following the 2020 election but unfortunately they are allowing the benefit of all the earlier exemptions to still be applied. (My suggestion in "Choice of Tax" above would raise more if were implemented). So my suggested Income Tax changes would have raised some 24bn in 2018. Because incomes and taxes will be reduced with the pandemic let us ignore the inflation from this 2018 figure which would normally have occurred.

The increased rate to 33% would not be applied to the tax-free portion of superannuation. On the 2015/16 figures that I have this would have been some \$1.64bn so the above figure is overstated by something like 2bn. So we can expect the gain from the increased taxes to be, say \$22.5bn. (Note that this figure excludes Superannuation and Working for Families etc but does include Superannuitants "other income".)But the cost would be much more certain. With 3,250,000 people in the 18 to 65 age band the cost at \$9080 each is some 29.5bn. A difference of some 7bn if the rates were raised on higher salaries as suggested. Where might this remaining 7bn come from?

It would probably be recovered by the HIT paying part of benefits, excluding Superannuation and Working for Families but including accommodation supplements. For example if, as forecast, unemployment reaches 8% then the first 2.3bn of their benefit would be from the HIT payment. The net benefit would remain unchanged. Beneficiaries would not get both their normal benefit and the HIT payment. There would be some saving in the cost of bureaucracy which would occur gradually and not be fully realised until later. It might then be of the order of 2bn. The bureaucracy will be needed to set-up and stabilise the transition. Also making a large number of civil

servants redundant at a time of high unemployment is not attractive so let us ignore this at the beginning.

There is another major issue which disadvantages the poor. This is their inability to profit from moving some or all of their affairs into a company or trust with the tax advantages they would then be able to access. One of the most obvious issues here is the 28% tax rate for companies and trusts. The apparent reason for this being less than 33% is the power of companies and their shareholders. It is discussed in chapter 4 below but it is not suggested that this should be dealt with in the current circumstances.

Finally, in “Government Will Get Money Back” above I have pointed out that when the HIT payments are spent then, under current circumstances, Government will get successive Goods and Services Tax (GST) returns which on only 4 cycles, and assuming one third of GST is not reported, will return it some 50% of what it has paid out. And another 4 cycles would then total 75%. So any money which the Government would pay out as “new money” would likely be almost returned to it.

Of course people’s behaviour might also change as they have more or less money. Some of those above \$70,000/yr of income may well have unemployed partners who will be \$9080/yr better off. They may choose to spend it in which case Government gets its GST. Or they may put it into a bank where, if people are prepared to shoulder these debt burdens and the banks are prepared to allow them to do it the GST return to Government could be much higher. And the total of personal debt could become horrendous.

It should be clear that the HIT will be close to fiscally neutral or more - even positive. I have no information on the “velocity of circulation” of money – particularly under the circumstances we are facing. Let me guess that 4 cycles of GST would be completed within a year and that the maximum of loan money that Government would require would be, perhaps, 7bn for 6 to 9 months and to then have it repaid with a positive cash flow thereafter. Using these same 2018/19 figures the 82% of people who earn less than \$70,000/yr will be better off by an average of nearly \$4,400/yr. At incomes outside the brackets and with annual savings compared to the current income tax inside the brackets the result is: - 0(9080); 14,000(5930); 48,000(660); 70,000 and above (0). Note that a non-working partner

who is currently denied any benefit will get their individual HIT payment even if the working partner is on an astronomical salary.

Those on \$70,000 to \$180,000 will be in exactly the same position as at present while the nearly 2% above \$180,000/yr will, on average, pay an extra \$19,185/y with the Labour Party boosting their rate to 39%. However Labour will still be allowing them the \$9080/yr HIT benefit which will compensate for the loss of the earlier exemptions.

When the economy is running at capacity it will be time to increase the Basic Income including the HIT component and funding it with another tax specifically intended to reduce inequality of wealth as well as income. This may be a Resource tax, as I suggest, or something else.

### **Timing and Cash Flow Problems**

Even with this first step for NIT we are talking of a major transformation with a number of component parts. The systems to be put in place before starting operations require a number of Government departments and later (when the payment is increased and we move to a full Basic Income) requiring local bodies to amend and extend their systems in order to collect the Resource Tax. These will have costs. And even when the latter are ready and go into operation the outflow of money is likely to be going to exceed the inflow for some time.

Paying the HIT and charging the new Income Tax rate will occur more or less concurrently but the Resource Tax later will have to be collected at the same time as the local body rates so there will be a deficit until these rates are collected unless there is careful timing of the revised payment and other benefits.

With the \$9080/yr rate for the HIT then the deficit between cash inflow and outflow will be at a level which will be recovered a little slowly by the extra Goods and Services Tax (GST) recovery as noted above. And we make the final changes to the larger HIT (possibly then called a Basic Income) and other benefits under less pressure. Clearly there is a lot of planning to be done but the Public Service is well able to deal with the challenge. The community and other benefits noted in Chapter 3 below will follow.

Increasing the base Income Tax rate beyond the 33% could be counterproductive in the current circumstances. So could increasing the tax on trusts and companies although it should happen as soon as possible as a matter of fairness. I conclude that the best way

forward is to just proceed with the \$9080/yr HIT and to judge when to move to the higher level of BI payments and improvements with an accompanying tax such as the Resource Tax. This is described in detail in Chapter 6.

The payments in BIs could well be seen as if Government was investing in the business of gathering taxes and therefore paying citizens so that they could later continue to pay taxes. Indeed that repayment will start immediately the money starts to be spent. But the important thing at the present time is to introduce HIT as a means of making our Income Tax system fair to all. Instead of those with the most getting more benefit from exemptions than those with the least.

### **The Numbers are Compelling.**

The IRD kindly publish annually, in spreadsheet form, thousand dollar bands of income showing the number of people, their declared income and assessed tax. The most recent publication is for the 2018/19 year. As well as the elimination of unfairness with tax exemptions the numbers easily derived from this publication seem to me to be absolutely compellingly supportive of the HIT approach:

1. The 82% of people who earn less than \$70,000/yr will be better off by an average of about \$4,770/yr. Those with no income will be better off by \$9080/yr.

2 Those with an income over \$70,000/yr will pay \$9080/yr more and receive \$9080/yr so will be unaffected by the change..

3 There are no steps in the tax scale to "creep".

4 The cost of the HIT payments will be about \$29bn.

5The extra amount collected by removing the exemptions will be some 22bn.

6. Benefits (possibly including ACC and accommodation allowance) can be reduced by the NIT amounts that are being paid without altering the beneficiaries net position. This may well cover the difference.

7. If it is necessary for Government to make up the HIT payments by borrowing this means that it has not been taken from others in taxes. So Government's payments will result in new spending which would otherwise not take place. The economy will be stimulated and Government will get 15% back in Goods and Services Tax (GST) every time there is resultant spending or saving. Even making a generous 33% allowance for evasion and other factors then, as

noted above, even after only 4 rounds of spending Government will have recovered from GST some 50% of its input and after 8 rounds some 75%. Government will also gather taxes from the jobs and profits that are created by the HIT payments.

8. It is clear that the HIT will be fiscally neutral or, more likely, positive.

9. Many of the community benefits that are expected from a higher payment as a Basic Income incorporating the HIT would be achieved at the lower level.

10. The HIT gets money into the community where it can be spent without incurring personal debt as would be necessary with money supplied to the banks. If the money had to be borrowed before it could be spent then personal debt would increase raising the possibility of future financial crashes and increasing inequality.

END OF COVID SECTION

## **PART 1**

NOTE that, in order to obtain closely matching data sets, the calculations hereafter are done with 2015/16 data. And that I will continue now to talk of a Basic Income (BI) of which a HIT is the major component.

The essential conclusions in this part would be the same if the data and calculations were updated and the world had remained "normal". But the Covid 19 induced economic collapse has changed all that. Incomes have dropped. The Tax take has dropped. Benefits have increased. The sensible Adult BI must match the current "Job Seeker" benefit and increase from \$11,000/yr postulated for 2016 to \$13,000/yr. So instead of a HIT being funded with just a 33% flat tax as in the Covid 19 section above there will be a requirement for a Resource Tax between 0.5% and 1% levied on the improved value of properties. It would then allow most current benefits with all their surveillance and complexity to be replaced and all the other community benefits listed in Chapter 3 to follow.

### **Introduction**

There are two philosophical underpinnings for this book. First Thomas Picketty's work shows that historically wealth (and power) begets wealth (and power). This progression is checked only by catastrophic events such as world wars.

Scientifically, historical progression demonstrates what is referred to as a "positive feedback loop" where each time one repeats the cycle ( yearly or otherwise) every time one goes around the loop the variable concerned gets bigger – it builds on itself until ( as in nuclear explosions) it self-destructs. At the present time Covid 19 is doing the same thing. Unchecked each infection begets more infections and destroys people and businesses.

The second philosophical underpinning is the 2010 Penguin book by Wilkinson & Pickett (The Spirit Level - Why More Equal Societies Almost Always Do Better). The title says it all.

We have to devise better systems which will control or reduce the various threats to our way of life and that of the planet.

This book aims to show how to reduce financial inequality between people. It will show that our personal Income Tax system is such that as income increases one gets greater tax exemptions and Government effectively gives the higher paid more than the lower paid. The book proposes that Government, as a simple matter of fairness, should give the same amount to all in the same age group whether they have an income or not. This is widely known as a Basic Income and is a tax free payment, totally without any rules for eligibility. It is devoid of the odious targeting and surveillance of our present benefit systems which are shown to breach human rights as defined in our own legislation and international agreements. If Basic Incomes are set at an appropriate level such that most benefit payments can be abandoned then the human rights issues are satisfied.

In order to pay for the suggested BIs a Resource Tax is proposed based on the improved value of properties. Also a simplified Income Tax structure is proposed with one rate of tax up to a high level.

The practical difficulties of transition to the new system are discussed as well as other issues which have an impact or potential impact on inequality.

## Chapter 1. Can Democracy Survive?

*Let them eat cake!*

Everybody should have an interest in the problems of the poor. Obviously the poor themselves but also, as their numbers increase, they threaten the cosier world of their wealthier counterparts. The Covid 19 disaster is going to create many more poor people, including many who are presently wealthy. The pressure for change in our political systems are going to dwarf the riots and uprisings around the world which have arisen from just the present level of inequality.

Karl Marx sought to establish a different system because of inequality but, in the western democracies, aided by migration to the new world and two world wars, capitalism adapted and built a system with a balance between governments, business and unions which alleviated the problems of the poor. The power of the unions was broken in the Thatcher/Reagan era and the consequences are now very visible so that we are faced with a great deal of inequality and continue to have periodic financial crises which add to the numbers of the poor.

The Great Financial Crisis of 2008 was solved in part by governments "printing money" (euphemistically called "quantitative easing"). Instead of following a good capitalist approach and using this taxpayers money with which to buy the banks and finance houses at "fire-sale" prices so that their owners carried the losses. Instead governments rescued those who had arguably caused the crisis. It was said that they were "too big to fail" so, instead those who were small enough to fail were compelled to do so. The end result was that the big got relatively much bigger and inequality has continually increased.

I am old enough to have a great respect for Winston Churchill – both in his leadership in war and his command of English. He wrote something like "We won the war so that we could again start the processes that led to it". Similarly we have largely recovered from the 2008 GFC. It is clear that, because of Covid 19 we are headed for a bigger one which is already started. Once more this will hit hardest those who have the least unless there are changes in our systems. And it may be that the biggest changes of all will have to be in our

political systems in order to deal with the distribution of the country's wealth. People need hope that there will be transformations that will benefit those who most need the changes.

Any suggestions for changes in the way our systems work requires consideration of the environment in which they will have to be implemented. Our global, natural, political and social environments are all changing at unprecedented rates. The climate changes, pollution, overpopulation, communication and other new technologies are exacerbating the difficulties of foreseeing consequences for either good or evil.

There was a time when it was simply accepted by the rulers that "the poor are always with us". This followed from the days of tribalism where the chief ("top dog") clearly needed servants, services and privileges in order to function effectively. But, eventually, some of the rulers saw that their subjects needed better treatment if they were to function as a community. Benefits for "the deserving poor" were developed. These were paid for with wealth taxes, high income taxes, death duties, gift duties and the like. Hopes by the poor for improvement in their position were kindled by giving votes to males and, later, to females as well as the development of trade unions. The system, known as democracy, for establishing Governments was stable, in most European countries at least. Democracy had initially replaced hereditary sovereign rule in most of these countries. In other countries communism and fascism took root having started from despair amongst the poor and underprivileged.

The European world-wide wars saw changes of many kinds but in the "Western" countries democracy seemed entrenched and was being carried with missionary zeal to others. The opposing ideologies of communism (ownership by "the people" of all the means of production – considered to be the extreme left-wing system) and fascism (managing everything for the "good of the nation" – considered to be the extreme right-wing system) were thought to be in retreat. In practice all the ideologies, including democracies, and plain, simple dictatorships have much in common and all have the same sort of inequality problems.

Inequality is not just a matter of the difference between the top and the bottom. Liam Kennedy ( see Ref 2) says of the UK:

*"Income inequality, as measured by the Gini coefficient (before and after housing costs), slightly increased from 2010-11 to 2017-*

*18. Moreover, the Gini is just an average of inequalities—it doesn't show, for instance, that the poor have been falling further behind the middle. It also omits the negative impact across (the intersections of) disability, race and gender."*

Many are now questioning the stability of the democratic method of forming Governments and becoming concerned about what may follow it. Present trends indicate that this may be some form of dictatorship – in many cases masquerading as a democracy. A typical concern is expressed in a paper (see Ref 3) entitled "Inequality and unions—Brexit, Trump and "yellow vests" in France:

Sixty years ago, the sociologist WG Runciman published an influential study of attitudes to 'relative deprivation' in 20th century England. Runciman sought to explain why at crucial periods in the past century, notably after the First World War and in the Great Depression, high or rising inequality had not led to greater unrest or even revolution. His answer was that individuals tended to compare their social position only with 'reference groups' close to them.

Something has clearly changed. A decade into the great recession sparked by the 2008 financial crisis, politicians and commentators in industrialised countries are struggling to comprehend how in country after country there have been explosions of anger against governments and the 'elite'".

The Brexit vote in the United Kingdom, the election of Donald Trump in the United States, the growth of nationalist and anti-immigration parties in northern Europe and, most recently, the 'yellow vest' insurrection in France all represent a populist reaction to the rising inequality, stagnant median incomes and economic insecurity which have become the dominant trends in many industrialised countries. They reflect a growth of relative deprivation, where significant segments of populations feel that, whereas others have gained from economic and social change, they and their families have lost out—and they fear a future of even greater insecurity. Sharpening divisions appear after decades of the weakening of intermediary institutions, notably trade unions, whose economic role was to act as a brake on rising inequality and whose political role was to provide voice to those feeling unjustly treated and to negotiate solutions to their grievances.

Brexit, Trump, nationalism and street violence all represent bad answers to an important question—how to reforge agreement on

distributive justice for those who have lost out (or so feel) from globalisation, technological innovation or responses to climate change. A 'new social accord' is essential, in workplaces and communities, to rebuild trust in fractured societies. It must reduce income inequality, support purchasing power and median incomes, address job quality and counter the spatial concentration of discontent. Above all, it will entail reconstructing and reinforcing intermediary institutions, such as unions, which can provide voice and collective solutions.

## **Chapter 1 Can Democracy Survive Inequality?**

### **Some History**

In the early nineteen eighties the whole of the Western world was swept by the neoliberal slogans - user pays, market forces, less government, and trickle down.

"User Pays" has led to increasing inequality. Pope Francis has called inequality one of the greatest threats to our civilization. The Organisation for Economic Cooperation and Development (OECD) has declared inequality to be a threat to economic growth. So both those who worship God and those who worship money want to see a greater distribution of wealth. This objective is given further impetus by the International Monetary Fund (IMF) and other studies which report that policies which put spending power into the hands of those with the least spending power increase Gross Domestic Product (GDP) the most. So, it may well be the case that by increasing equality the increased demand makes everyone better off financially and/or socially.

"Market forces" have clearly become damaging to the environment and to working populations in some countries. A lot of work has been moved to countries where Corporations can harness cheaper labour, avoid regulation, use local resources and externalise their costs by discharging waste into rivers and the atmosphere.

"Less Government" has often meant that services and infrastructure provided to the whole population have been cut, allowed to decay, sold off at low prices, performed by consultants or subcontracted locally or overseas.

"Trickle down" has simply not worked. With a few exceptions those who have the money have used the power it has given them to

maximize their own benefit. The result would be more correctly called "pump up". Even the "middle class" have become increasingly precarious. Guy Standing has coined the word "precariat" for the whole group who have the sort of uncertainty about their future income that used to be largely confined to unskilled labourers.

Many of the undesirable consequences of the neo-liberal doctrine would have been avoided if there had been adequate "trickle down". This requirement was clearly essential as the technological and climate change revolutions gathered pace. Otherwise it could be foreseen that, as in the industrial revolution, those who own the new technology/robots would reap the rewards and many more would be bereft. The resultant anger from the precariat would challenge ideologies, unseat Governments and damage those with the most income and wealth. All of these trends are suddenly magnified by the Covid 19 "tsunami" of change around the globe.

The Labour Party's Commission on the Future of Work reported in early 2016 after two years of intensive consideration of the consequences of advancing technology and corporatization. They said (page 38) "*In a world where people are more likely to move in and out of work more often and there may be a shortage of full time jobs, we need to reassess the interface between working and welfare*".

Before Covid 19 variations of these problems were already very visible with "Internships" where (as in Captain Cook's day) people work for long periods without pay in the hope of then having paid work. More and more frequently people have to be on standby - unpaid – in the hope of short periods of paid work. Current examples are zero hour contracts and the plight of some contracted courier drivers. Those affected (the "precariat") range from the unskilled to the most highly skilled. Consider the hundreds of people displaced by the Inland Revenue Department's new computer system. As well as the huge reduction of checkout operators in supermarkets, the vanishing "posties", the absence of forecourt attendants at petrol stations and so on.

Saving the "too big to fail" is now necessary but it should not be done with grants but with bonds or loans so that by their repayment the taxpayers eventually retrieve their outlay. And it may be even more important to assist all the local, traditional small businesses which carry many of the seeds of the future. Making sure that

everyone has an income of some sort is essential for this purpose. Basic Incomes of some sort are now clearly indicated.

The Commission heard from Robert Reich (US Secretary of Labor from 1993 to 1997) and others about BI. The Commission then recommended (see page 37 of the report) that "...*the Government continue to investigate alternative income-support models ...*"

Winston Peters (Leader of the New Zealand First Party which is now part of the ruling coalition) has said "*Capitalism must get a heart*".

In other words we all need to think about making something like "trickle down" work. In a democracy it is necessary to have electoral support for any major change if a political party is to get into power or remain in power. The Basic Income solution I will go on to suggest would, on its own, probably be political suicide. So too would a Resource Tax, which I will also suggest as the means of paying for the BIs, if it were to be introduced on its own. But the combination has a real chance of gaining widespread approval. As we will see later a balance between the size of the BIs and the suggested Resource Tax must be made. If this balance were chosen to mean that about 70% of the population benefitted the electorate can be expected to have a positive response.

### **The Case for Enforcing a "trickle down".**

The idea that there are "deserving poor" who should be given benefit payments was a development of the first industrial revolution. This idea has persisted but means that bureaucracy is needed to decide whether a person meets the defined target requirements. These have become increasingly complex. The corollary is that there are "undeserving poor". And today we also have "the working poor".

See the film "I, Daniel Blake" to understand the difficulties with targeting which can drive people, and those trying to get help for them, to despair. Target requirements become stricter and more onerous as Governments strive to achieve chosen economic indicators rather than to improve well-being. And surveillance, sometimes becoming harassment akin to that accorded released prisoners on parole, is needed to ensure that beneficiaries continue to meet the target for being a beneficiary

Seldom has thought been given to the position of the "undeserving poor". Having been rejected by their Government they are, essentially

"non-persons" officially. The state largely treats them as "non-persons" who have brought their misfortune on themselves. So that payments from the state are "targeted" to minimize the cost and to punish the "layabouts" and others who can be conveniently stigmatized. They are not "stateless" in the normal sense but they are "state-forsaken". The state then spends large sums detecting and penalising crimes and illegal acts such as providing false information in trying to get assistance - even if those concerned are just desperately trying to survive in a hostile environment. What can they do in order to survive? We then have many laws to deal with things that they may do. And the expenses of police forces, justice and corrections systems. The people concerned may, or may not, be treated more leniently if, for example they steal in order to be able to feed their children. But the victims of the "crime" are still victims and many people fear that they may become a victim. Altogether there are enormous community costs.

This idea of the undeserving poor should not have survived the advent of the modern concept of human rights.

There is a huge literature, dating back centuries, suggesting that targets should be abandoned. A recurring idea is that payments should be made to everyone regardless of income or accumulated wealth. Unfortunately, few authors deal in any detail with the problems of how to finance these payments. Let alone the problems of transition. I will not here review the literature or give many references but would be glad to provide particular supporting references if requested.

Some people feel that the present benefits system just needs more funding without significant structural change. Speaking of this present system Sir Geoffrey Palmer (a former NZ Prime Minister) recently said in his Sir Owen Woodhouse Memorial Lecture:

"The need to produce some coherence out of these disparate programmes seems to me to be pressing. The present pattern is the antithesis of joined-up government. It ought not to be beyond us to review the whole disjointed picture and provide a unified, integrated scheme for income support for all forms of disability and retirement based on carefully articulated principles. Entitlements needs to be clearly defined in the legislation that people can understand, and as free from discretion as possible."

There is an analogy in the history of science where separate observations have piled upon one another over long periods and ultimately have been unified by a new theory or approach. We are in just such a position with our tax and benefit systems. Huge complexities have arisen as each problem has been met by another "tweak". Sadly, that is very much what has resulted from the deliberations of the latest Working Groups.

Extra funding will clearly be needed but a new structure is required. The threat to democracy stems from a widespread belief amongst many of the populations that inequality has been fostered by their "rulers" who have thus deprived them of their human rights and democratic freedoms. Any new system therefore needs to be founded on a clear platform of human rights.

One great virtue of democratic systems is that they, over time, can modify and change themselves without violent upheaval. There is now an urgent need for some major changes if democracy is to survive,

## **Chapter 2. We Breach Human Rights**

The best exposition I know of WHY we need to replace the present system with Basic Incomes has been given by Gail E Duncan (see Appendix 1 for her brief resume) in a paper entitled "Economic Review of the Status of Beneficiaries in NZ". Note that there have been improvements since this paper was written but the issues remain. The whole paper has been published by Scoop, a New Zealand on-line publisher of important news and articles. See Ref 4.

For convenience I will here reproduce, with her permission, some key-points taken from slides that Gail used in a presentation. These validate the assertion in the chapter heading.

### **INTRODUCTION**

Any New Zealander can go quickly from anything to nothing.

There is no guarantee of provision of a means to live for 16 - 64 year olds.

The rules prohibit normal human relationships and opportunities for both beneficiaries and members of a family unit.

The concept of each New Zealander as an economic unit and their entitlement to a basic income will be explored.

First, consider the stark differences between the freedoms enjoyed by Wage, Salary and Business-owners (WSB) with respect to their incomes and the constraints on Beneficiaries (B).

1. WSB “own” their income. B get it from the taxpayer and it is still in part “owned” by the taxpayer.
1. WSB are free to spend as they see fit. B have the risk of penalties, deductions and demands for refunds to the taxpayer.
1. WSB have the freedom to engage in relationships. B are constrained, can have their privacy invaded and consequences on their income.
2. WSB can sublet or share accommodation. For B sharing or subletting have consequences on their income.
3. WSB can accept gifts from family, take out loans, have savings and investments. B can't have savings or investments and can't receive food, gifts or assistance with mortgages from family or other parties.

In many respects Beneficiaries are treated as if they are on probation or parole.

### **FAMILY UNIT**

Family Benefit was paid as a universal income to the caregiver in the past.

Family support is now a family tax credit (FTC) based on the whole family income topping up net wages (Income Tax Act 2007, Part M, Working for Families).

The family is considered in the manner of a FIRM –an individual unit- an economic person.

This is counter-productive to the rights of the individual units that make up that family.

Each individual in the family needs an entitlement in their own right.

### **THE MISSING PEOPLE**

Persons who do not receive an income in their own right.

Non-earners in a relationship where the other party is an earner.

No financial independence.

Not accounted for as contributing to the economy.

Mainly women.

Includes men made redundant/unemployed whose partner is earning, and

Students are assessed by their parent's income, not considered as individual persons in their own right.

### **WOMEN**

Comprise > 50% of our society, not a minority, not a fringe element.

Domestic purposes beneficiaries are under tight surveillance regarding any relationship.

Non-earners in a relationship with an earning partner have no entitlement-  
mainly affects women.

Women generally have lower wages than men thus will feel the burden of supporting a family more keenly if they are the sole income earner.

Abrogation of women's rights in abusive relationships.

A Basic Income will address women's rights by allowing:

Full legal entitlement to economy/financial means.

Choice of relationships.

Choice to bear children, or not.

### **PRODUCTIVITY & POVERTY**

Income redistribution reduces POVERTY by reducing inequality.

POVERTY is exacerbated by the current benefit system and low wages.

POVERTY reaches new levels every year from deprivation to full scale poverty.

New Zealanders from the young to the old are now living on the streets.

INERTIA in productivity is related to the disengagement of these people impacting on New Zealand's Gross Domestic Product which lags behind Australia and other countries.

### **EACH INDIVIDUAL AN ECONOMIC UNIT**

One way to ensure every individual in NZ has the opportunity to participate in society and have the same freedoms is to merit each individual as an economic unit in their own right regardless of relationship or any means they may have of earning an income.

A successful precedent has already been set by the NZ superannuation scheme.

#### Activities of the ECONOMIC UNIT

The Economic Unit is free to:

Spend the basic income they receive as they see fit.

Earn money by other means (just as Superannuitants do).

Have no penalties for not attending a job interview, not accepting a job or other demands.

Take out loans.

Set up a business, engage in the market.

Have relationships, or not (e.g. raising a child on their own).

Participate in society, with the means to afford at least public transport.

Coexist with others, mingle with family and friends.

Receive gifts from family and friends.

#### **NZ BILL OF RIGHTS ACT (BORA)**

Article 1 of BORA asks us to address ANY distinction, restriction or preference!

Reformative economics

NZ has been ahead of the world before, and is leading with wellbeing initiatives now.

Economic policy goals cannot be used as a justification to reduce rights.

A person is disadvantaged if they are treated less favourably.

Disadvantaged persons include:

Persons not entitled to a benefit.

Persons on a benefit with a burden of repayment imposed on them.

All beneficiaries have restrictions imposed on them that wage and salary earners do not.

#### **U.N.SUSTAINABLE GOALS**

Sustainable Development Goal 1

End poverty in all its forms everywhere.

Sustainable Development Goal 5

Achieve gender equality everywhere.

Sustainable Development Goal 8

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

## **INTERNATIONAL GOALS**

Financial inclusion of women is vital for economic advancement.  
Economic participation of all members of society is important for:  
Growth output.

Exports.

Diversification and facilitation of more equal distributions.

Improved participation in the labour force

Burden of a country's debt must not fall on those with the least.

IMF quotation

"In an environment in which job insecurity is increasing (for example, because of market disruptions associated with technological progress) expanding available insurance mechanisms may become an important policy objective. A BI could provide a stable source of income to individuals and households and therefore limit the impact of income and employment shocks.

## **ISO 37120 SUSTAINABLE AIMS**

Every person being recorded and their needs estimated.

Engagement with all sectors of the community.

Provisions for the disabled.

Developing opportunities around environmental improvements.

Ensuring supply of services.

Efficiency of industry & society.

Human inputs, governance & organisation.

## **Chapter 3. A Better Approach.**

The purpose of the discussion in the previous two chapters is to show that our present systems for distributing the country's wealth are complex and deficient. They have a serious potential for continuing to concentrate wealth thereby promoting major change in our political system with unknown results.

Everything is connected to everything else. The more parts that are to be connected the more difficult it is to see the whole. The result of "targeting" benefits for various purposes leads automatically to having separate departments or branches of Government responsible for different things. And there have to be bureaucracies to attempt to ensure that those entitled to a benefit receive it while those who do not meet, or no longer meet, the qualifications do not. There is a continuing need for review and surveillance of those receiving benefits. This is all costly and can be oppressive for the recipients. There seems to be a continuous series of court cases where a department is seeking to recover payments which they believe the recipients are not entitled to receive.

Our media have never-ending reports on people with serious needs "falling between the cracks". In spite of continuing attempts over many years the result has just been more complexity and more bureaucracy needed to administer the systems. The result of being continually denied in one place and referred to another is tear-jerkingly familiar to many of those who have some contact with our own or, I suspect, many other countries' targeted systems.

If we can simplify the whole structure so that it is transparent, understood and considered to be fair by most people we will have achieved a great deal.

### **Community Benefits from BIs**

It is reasonable to expect that with the simplicity of the BI system from the viewpoint of the recipient the problem of the lack of uptake by persons who qualify for benefits will be very small. Surveys in Britain have found that in some cases only some 20 to 30% of qualified recipients have actually received particular benefits. But with media coverage and checking those on current benefits, in prison, on the electoral roll or with IRD numbers and ratepayers the coverage should be very high both from the outset for those receiving BIs and

paying for them. This effect, of itself, will be of assistance to many people.

There are many potential improvements which, if the BIs are set at the right levels, could include:

- A stop to "beneficiary bashing" and official intrusion into people's lives
- Easy collection of fines and child maintenance
- Reduction of child poverty
- The empowerment of women by recognition of mothers and carers
- Possible repopulation of rural centres with retired and seasonal workers
- A large saving in the administration costs of benefits.
- A reduction in problems associated with Accident Compensation payments.
- A reduction in student "Living Allowance" problems.
- Reduced crime and easier rehabilitation of prisoners
- Improved feelings of security and reduced stress for many
- An improved worker/employer power balance
- Improved social cohesion and a more resilient economy
- An improvement in health and school attendance

Each of the above deserve a detailed explanation but I will give one recent reported example to illustrate the issue of prisoner rehabilitation:

A man was released from Trentham Prison after serving 4 years for assault. The Prison would not give him the \$350 he was entitled to on release but said he could get it from Lower Hutt Work and Income Department. Fortunately he was met by a friend who drove him there. They would not give him a cheque since he did not have a bank account and said he would have to go to Upper Hutt to get cash. Allegedly he "pushed" a security guard and was driven by his friend to Upper Hutt. There the police were waiting for him and took him into custody again for assault. One can imagine the example that this case may have been to those in prison who would then choose to embrace the security of a gang on their release.

With BIs set up to be paid in advance into bank accounts for every resident then whether it had been decided not to pay the whole, or any, of the BI while the person was in prison then the first payment should already be in their account - presumably they would not then get the \$350.

(There is a current problem. Banks, and others, require an address before opening an account. The "Realme" system currently in use by some government departments has the potential to solve this problem as is explained later in Chapter 8 – A Little Bit of Cream on Top.)

If the Adult BI is set at a level that allows most existing benefits to be abandoned, then the accompanying bureaucracy can be shrunk to dealing with hardship and disability only. And if Income Tax is set at a level or levels which are felt to be really equitable then there would be no need for all the things which depend on the income earned. A current example is that student living allowances are not granted if the parents have incomes at a given level and benefits are "clawed back" or stopped at different levels of income giving rise to "poverty traps". There can be great simplification if the income tax rates are appropriate. Grants and benefits of various sorts need not then have messy exclusions and qualifications depending on the income or wealth of the person or their parents. We will discuss wealth in more detail below.

With the certainty that the BI will continue regardless of whether one has a job or not there will be no disincentive for getting a job with all the costs of travel and clothing which that brings with it. Stand down provisions also disappear. There is a reasonable expectation that innovation and small start-up enterprises will be promoted as a consequence since they might then survive with less income from the enterprise and become viable.

In terms of Health & Welfare there is evidence that a BI approach can be expected to be a great improvement over our present stressful targeted system. And BIs may well be good for the economy when measured in purely financial terms.

Equality is, of course, a matter of more than money. Other non-monetary factors (such as gender, ethnic identity, disability and so on) can lead to very significant inequalities. Also, if the same facilities and services were provided free of charge to everyone (using public funding) then there would be equality with respect to such offerings. I

think of the availability of free swimming pools, healthcare, education, transport, school meals, parks, childcare and so on. There are many such things which are not currently fully publicly funded. Thus, income and personal wealth play a very significant role in people's ability to lead the lives that they could live, and in the shaping of society as a whole.

Note that our benefit system is currently predicated on the philosophy of the 18<sup>th</sup> century that the "deserving poor" should get Government assistance. The corollary is that the "poor" should get nothing. They are "non-persons" in the eyes of the state which has washed its hands of them. What can such people do in order to survive? How can they nurture the next generation so that they are healthy, able to learn and be willing participants in our society?

Money is not the sole answer to many of the problems even of the "working poor" but it will surely help. Yes, there are many systems designed to help but these always have some authority making decisions for the people concerned. It is not the same as the people being treated with dignity and, as a human right, having some money of their own with which to make their own choices. Many parents have found that giving children a clothing allowance and having them buy their own clothes has resulted in a rapid development of responsibility in this respect. And the threat of deductions for misdemeanours gains attention.

Similarly if young people have a BI which can be reduced temporarily in order to pay reparations, traffic and other fines then they may be better behaved. The costs to the community in law enforcement and victim damage can be expected to decrease.

Consider the rise in membership of gangs. If as a young person you have never had the food, shelter and experiences that good parents try to give their children clearly their education will suffer. They are unlikely to enjoy school, to stay away and get into trouble. If they have a short time in "correction" establishments they will have to consider what happens when they get out. The protection and security of joining a gang has to be appealing as they will probably have no job or support. There is, in any case, some mana to be had in joining a gang if one is disaffected with no prospect of a decent future.

The Social Welfare Department can identify with some precision the future customers of Corrections at an early age. They may well be able to forecast what the effect would be of BIs in developing a sense of responsibility in both parents and children by giving them the ability to have more alternatives for making their own decisions.

Again, with both male and female parents getting their own BIs would the incidence of family violence increase or decrease? At least the caring partner could leave with the children and escape the violence. In many cases they cannot do this simply because they have no income of their own. They do not qualify for benefits because they have a working partner.

It should be possible to put a monetary figure on the potential decrease in the number of people imprisoned. Every 1% decrease represents something like \$10,000,000/year. And the decrease in Maori imprisonment is likely to be greatest. It is much cheaper to pay a BI than to keep someone in prison. Even though the BI can be stopped while they are in prison.

Also the effect of BIs on school performance could probably be given a meaningful financial approximation.

But these direct costs do not count the cost to the families of prisoners, the costs to victims of crimes, the costs of the policing and court processes, the waste of people's potential, the demand for voluntary support services and the like. It is not just the cost to Government which has to be considered but the wellbeing of the populace and the preservation of our participatory democracy. The messages around the world are that the level of inequality has reached the stage where whole populaces want to throw out their ruling class but do not have any ideology to guide their replacement. Authoritarianism on the Trump model appears to be what is emerging.

I have not attempted to approximate the financial benefits of all of the possibilities noted above. The case for carrying out a comprehensive study of BIs is, I believe, sufficiently strong without including these well-being savings.

To reduce inequality there will have to be redistribution of both wealth and income. Clearly great care is needed to decide on how great this distribution should be and how we could change to a new paradigm. It would help if the extent of redistribution were to be made clear in our national accounts.

## **Second Order Effects of BIs**

The discussion above is concentrated on the effects of BIs on individuals but there are also considerable changes that may take place in the general economy. What is good for the prosperity and security of individuals can be expected to flow through to the general economy.

The continual decline of rural towns and accompanying growth of cities may be slowed by families choosing to buy the lower priced homes and easier living in rural areas. This would be promoted by increased working from home and on-line learning opportunities, seasonal work, savings in travel costs, relocation of businesses including Government businesses, cheaper sections because of the reduced costs of providing new supportive infrastructure and the like.

In Chapter 6 I discuss paying for BIs with a Resource Tax set on the value of properties. If put into operation then the lower costs and valuations in rural areas would mean that the Resource Tax would cost property owners less there than in the higher priced cities - increasing the desirability of staying in or moving to rural areas. It also means that there would be less of the new tax collected from the rural areas. This would have to be allowed for in setting up the transition to the new system.

If, as I suggest, the rollout of the new system were to be in, say, the West Coast the cost of the BIs per head would be the same as elsewhere but the Resource Tax collected per head would be very low compared to, say, parts of Auckland. Within Auckland there would be a transfer of the tax burden from South Auckland residents to Remuera, which is as it should be. This feature would probably enhance the enthusiasm of the electorate in less advantaged areas but diminish it in others.

With the security of BIs people would have many more alternatives available to them.

## **Some Building Blocks for BIs**

A very useful International Monetary Fund (IMF) working paper (WP 18/273) entitled "Basic Income Debate and Assessment", as well as much else, gives a multinational view of present targeted benefit systems and things to consider with BIs. The paper works

methodically through different points of view having identified a number of important "building blocks" which need to be decided for a successful system. In the following quotation I have inserted in capitals some comments regarding my own thoughts:

*"Our six building blocks are:*

— *Size: How much will the basic income be? HIGH ENOUGH TO ALLOW MOST BENEFITS TO BE REPLACED WITHOUT LOSS TO RECIPIENTS AND RETAINING REVISED HARDSHIP AND DISABILITY ALLOWANCES*

— *Eligibility: To whom will the basic income extend, and what eligibility criteria (if any) must potential recipients satisfy? UNIVERSAL AND UNCONDITIONAL ELIGIBILITY DEPENDENT ONLY ON AGE WITH DIFFERENT "SIZES" FOR DIFFERENT AGES.*

— *Uniformity: Will payments vary based on geographic location, household size, or wealth? NO.*

— *Assignability: Can individuals transfer their right to future payments (e.g., as collateral for a loan)? NO. A MAJOR OBJECTIVE IS SECURITY FOR EACH PERSON SO THAT THEY, OR A PERSON RESPONSIBLE FOR THEIR CARE, ARE FREE TO MAKE THEIR OWN CHOICES AS TO THE DISPOSITION OF EACH PAYMENT. CHARGES AGAINST FUTURE BI PAYMENTS CAN ONLY BE MADE FOR A FINE, COURT IMPOSED CHARGE OR CHILD MAINTENANCE BUT NOT FOR MORE THAN HALF THE BI.*

— *Payment Mechanism: How will the actual cash transfer to BI recipients work? How often will payments be made? Which agency or agencies will be tasked with implementing the program? INLAND REVENUE (IRD) WILL PAY KIWIBANK WHICH WILL, WEEKLY, PAY INTO PEOPLE'S CHEQUE ACCOUNTS. THESE WILL CARRY NO ACCOUNT FEES. (SEE CHAPTER 8 – "KIWIBANK A LITTLE BIT OF CREAM ON TOP")and*

— *Funding Mechanism: Will a BI be funded by the elimination of other social welfare programs (and if so, which ones?), or by additional taxes, or by a combination of both?. SEE ABOVE AND "THE CHOICE OF TAX" IN CHAPTER 6"*

## Chapter 4. Why are the Poor Poor?

This question is rarely asked. Some people accept the ancient wisdom –"the Poor are always with us." There is an astonishing measure of arrogance and conceit –" I am rich therefore I am clever" and suchlike. A Chairman of one of our largest companies once gave a speech in which he basically said that if everyone worked as hard as him then they could all be Chair of such a company. Many people feel that way. Others say it is because the Poor have made bad decisions or are into the use of drugs.

**The Poor are poor simply because they have no money and no resources.** There are many reasons. Physical and mental sickness or disability aside there are strong inter-generational effects and, basically, the world is then biased against them and their children. It is a vicious circle. It becomes impossible to borrow money, or only at penal rates of interest. When they are unable to meet the obligations they have, their belongings are repossessed, and all credit may be denied to them. The better off may well have huge debts and be bankrupted but can be left with viable living arrangements and can start again. Or they may be sheltered by the use of trusts or company structures so that they go unscathed by leaving their debts behind. And they will probably know how to benefit from tax advantages enjoyed by companies and others.

The major world events such as depressions, financial collapses, wars (both shooting and trade wars), famines, inflation, climate change, law changes, immigration, population pressures, pandemics and the like all bear most heavily on the poor and often obliterate any resources they manage to accumulate. I will devote some space to these issues later.

Many of the poor are dependent on having jobs with wages. The lower their skill level the fewer choices they have and the more likely that they will only be able to get part-time jobs with significant unemployment. There are increasing prospects of their skills becoming redundant and they may not be able to afford to retrain or have the pre-requisites for training. Their Unemployment (now "Job Seeker") Benefit requires them to seek work - this can be an expensive process. And so on.

The present taxation system exacerbates this. Companies pay 28% tax on profits. People pay up to 33% tax on income. The maintenance cost of a machine to replace a worker is tax deductible.

The cost for a worker to stay alive is not deductible for their Income Tax purposes. It is tempting to think that the Living Wage should be made tax free but this would require an enormous increase in other taxes and would not assist those with no income. And, again, with higher incomes one would get all the advantages intended to help those lower down while those with no income would get nothing.

There are many ways in which those who are better off are advantaged by our current tax systems. Our GST (Goods and Services Tax – similar to the British Value added tax) at 15% hurts those who have to spend all their income on living much more than those who have disposable income and can afford to save. (Incidentally, New Zealand's (GST) is a beautiful example of a simple and successful tax – there are no exemptions.) A recent example of built in bias to the better off is the Auckland City Council choosing of a levy on petrol instead of raising rates in order to finance better roads and infrastructures. This is particularly unfair because in many cases new roads improve property values but the Poor are more likely to have an old "gas-guzzler" and to live in the outer suburbs away from their workplace.

Another recent example of bias against the poor was that children sitting their NZCEA exams in our "Free" education system were allowed to sit the exams but would not be awarded a certificate until they had paid the sitting fee. Thankfully the sitting fee has now been abolished and those who were earlier denied their certificates have had them granted.

There was consideration being given to a Capital Gains Tax in New Zealand as an extension of what is now known as "The Bright Line Test" The latter provides for the exemption of "Family Homes". The Inland Revenue Department devotes many pages to defining Family Homes. Clearly there can be many legal twists and arguments about specific cases. But if Family Homes are exempted then once again the Poor who rent their homes will bear the burden of the tax as those who provide rental accommodation will wish to maintain the business return on their investment and this will be diminished by the extra tax imposed on sale of the property.

Tax exemptions of any sort inevitably work in favour of those who have the most income or wealth. If they do not have the income or wealth that attracts the exemption then the exemption cannot benefit them. If Government is giving to people and it wishes to be fair then it

should make the same gifts to everyone. Thus if some people are to get an exemption because they have a family then everyone with a family should get the same benefit. It should be paid to everyone who has a family, not just those who are well enough off to own a house.

I understand that a precept of Political Science is that one can take a little money from a lot of people without a political backlash but cannot take a lot of money from a few people without serious consequences. That appears to guide some decisions. Those who are old enough will probably remember Spike Milligan, of the Goon Show. He wrote:

*"Thirty days hath September and no wonder  
All the rest have peanut butter  
All except my dear Grandmother  
She had a little red tricycle  
But its mine now yes it is"*

where each line makes some kind of sense but the totality is a nonsense. This is largely true of the components and the totality of our benefit system.

Huge complexities have been introduced over the decades to partially compensate for different issues in the face of immediate political publicity. A well-established axiom in developing computer systems is KISS - Keep It Simple Stupid. Our current tax and benefit systems are undeniably complex rather than simple.

### **Our Dysfunctional Income Tax System**

As an example of this complexity and its undesirable side effects as a result of the exemptions from the top rate of tax let us now consider our system for Personal Income Tax.

Some people who earn \$70,000/yr and above think that it is not fair that somebody on up to \$14,000 a year only pays Income Tax at the rate of 10.5% whereas they pay 33% on some of their income. I also think that it is not fair. But in a rather different way. The high earners only pay 10.5% on the first \$14,000 of their income and then 17.5% up to \$48,000/yr, then 30% up to \$70,000 and 33% thereafter.

If everyone paid 33% on ALL their income those on \$70,000 upwards would have to pay another \$9080/yr because they would then lose the exemptions on the lower levels of their incomes. At present the value of the current exemptions from the 33% are greater for those who have the most because they get all the exemptions

aimed at the lower incomes. No doubt they would want to be refunded this \$9080 so that their total tax bill would remain the same as at present.

Perhaps this would be fair. But only if we made the same payment to everyone. Then those with no income would be better off by a net \$9,080/yr, those on \$14,000 by \$5930/yr ( $9080 - (14,000 \times 0.33 - \text{current tax})$ ) and on \$48,000 by \$660/yr and proportionately for intermediate amounts. **Except for those with no income everyone would make a contribution to what they were to receive.**

This would then be a Basic Income. AHA! Basic Income would be paid on an ongoing basis whether a person had a job, property or other income or not. So there is the security of this payment as a means for living regardless of circumstances or relationships and this would not be reduced by resources or savings or redundancy pay etc.

One of the problems of any BI is the cost of paying it to everyone rather than targeting for just the "deserving poor". Many antagonists proclaim this and therefore refuse to even consider the case. But there would be no net benefit to those with an income higher than \$70,000/yr because they would be paying the \$9080/yr BI back with their increased tax.

The BI payment for adults does not have to be \$9080 per year or any other figure. The fact that superannuation is a BI (albeit with blemishes) does not require that BIs for those in a different age group should be in any way linked to the payments to Superannuitants – or Children when they get a BI.

However, Superannuation is important as a "proof of concept" for BIs. We are fortunate that our Social Security system originated back in 1938 and our "trial" of the BI known as Superannuation has largely solved the problem of poverty amongst our elderly. It is an excellent model of a BI, being almost entirely dependent only on age. From 65 onwards it is paid automatically without regard for wealth or other income. It has two blemishes in that the amount paid depends on the marital or living arrangements of the recipient and it is treated as income for tax purposes. Later I will suggest how these blemishes should be removed.

Superannuation is currently funded and so is the Working for Families benefit which applies to "Children" up to the age of 18. I will not consider the latter here as the proper level for it depends on the

level of BI set for the parents or caregivers. The main issue is the level of an Adult BI for those between the ages of 18 to 64 inclusive.

Some of the practical details of whether \$9,080/yr is the right amount for the Adult BI, how to pay for it, who should get it, how to transition to it and so on will be dealt with in the next chapter where we will consider the prospect carefully with its possible side effects and social implications. **It will then be clear that we have huge costs, both social and economic by NOT having a complete BI cover for all ages.**

### **Tax Treatments Increase Inequality**

The idea for the development of companies was to allow numbers of people to commit to paying limited amounts of money into a company so that they could participate in the profits but could not be forced to pay more than they had committed. This led to a great proliferation of exploration and trading ventures. Creditors might lose money but the shareholders were sheltered from risk – they could not be required to pay more than they had invested or promised. This concept has been tremendously successful in empowering the development of ventures and businesses. It also means that when companies fail the workers often lose heavily – psychologically, socially and financially. The fact that the creditors may lose money can be justified on the somewhat slight grounds that they should be in a position to assess the risk of trading with the entity and have chosen to do so. The workers will not be so well informed, if they are informed at all.

Companies are "legal persons" but they are treated very differently from normal persons. The most obvious difference is that companies are taxed on their profits but people are taxed on their incomes. Why is this so?

Well, companies make no demands on the health services or many other items of government expenditure. But they do require such expenditure for their oversight, infrastructure and supply of trained people, police, defence, fire services etc. Much of their cost is externalized leading to pollution and the like. (Many of their externalized costs are borne by local bodies and indirectly subsidised by Government).

The most obvious reason for companies having preferential treatment is that many are large entities which pay taxes, bring many

jobs and wield a large amount of power. Also such companies often have shareholders with a great deal of influence.

Some of the more obvious advantages of the treatment of companies is that they are only taxed at 28%, regardless of their profit, and that they can claim many things as expenses with a reduction of their profit.

There are many types of company, large and small, locally owned and managed, subsidiaries of other companies, overseas or locally owned, agents for other companies etc. Even without considering such things as tax havens the opportunities for avoidance and evasion are large and many legal and accountancy firms do very well from these industries. Their fees are well justified by the tax reductions they achieve. The publicity surrounding the low or non-existent tax payments in NZ by companies such as Google and Apple bears testimony to the difficulties and complexities for the tax-gatherer.

Some companies provide free transport for their employees to get to and from work. Of course the cost of this is a tax deduction for the firm and is tax-free for the employee. The practice is to be encouraged as the cost may encourage the employer to make more use of the modern communication technology and have employees work from home or in suburban "hubs". At present many people arrange their own "car pools". Company parking spaces could be given to "Poolers". Employers could develop such ideas. All these things could reduce traffic and parking problems. Free transport would alleviate the difficulty that low-paid workers with high transport costs can be worse off if they go to work on "zero hours" or the like when they could stay home and get a benefit or remain on one.

At the higher echelons of companies it is common for it to be considered that executives must be mobile so must have a company-paid car provided as well as city car-parking. They necessarily have to take the car home and back each day. This "perk" is often also enjoyed by the self-employed whether they form themselves into a company or not. Cell-phones, computers and other things can be supplied to employees of a company free of charge and are tax deductible for the company. This can be true even if the company is owned by the only worker in it.

There are many different ways in which ownership of all or part of a company can have tax benefits for the owner. Such benefits are not

available to the ordinary worker – particularly the low-paid and those who do not find out about their entitlements or cannot afford to engage a tax specialist. "The rich get richer and the poor get poorer."

Many improvements have been made in recent times to reduce the comparative advantages of using company or trust structures for tax purposes and the Tax Working Group made more recommendations but stopped short of recommending making the company tax rate the same as the highest current tax rate for individuals. Indeed there is an argument that the company tax rates should be higher than an individuals.

The shareholders in companies of course benefit from the tax advantages available to companies. These benefits are not available to non-shareholders – the poor. Inequality increases. When dividends are paid to shareholders the company can, and usually does, pass on to shareholders what are known as "imputation credits". These are to give the shareholders the benefit of taxes which have been paid by the company so that there is no double taxation with tax on the dividends in the shareholders hands being taxed once again. Strangely, the same argument has never been applied to GST (the Goods and Services Tax) where people have paid tax on their income and then pay again when they spend what's left.

There was a time when dividends were taxed as income with no such thing as imputation credits. Indeed dividends were classed as "unearned income" and attracted a higher rate of tax.

Company Tax is not a huge part of Government's income but an increase would be useful.

The Tax Working Group Discussion Paper for Session 8 explored the complexities of Company Tax and at 2.4 say "The reduction in company tax from a 5% drop in the company tax rate is \$2.4 billion per annum. They go on to

*".assume that profits are paid out and shareholders of New Zealand companies pay higher tax at the shareholder level."*

The future will not be the same as the past and modelling shareholder behaviour is extremely difficult. I observe that in difficult times overseas companies tend to repatriate money and investments. Also that the NZ investors who once invested to gain dividends are increasingly investing, as in the USA, for capital gain. Witness the ever increasing share prices of companies like Xero (which paid no dividends at all for over 10 years), Fisher and Paykel Health Care,

Ryman and the like. Investors are often not greatly interested in company tax rates so long as they get imputation credits matching their dividends.

So it is perhaps not such a big ask to think that raising the company tax rate to 33% would yield very much the same amount as reducing it – namely 2.4 billion. There would then be fewer tax avoidance issues than those created by having companies taxed only on profits and at a different rate from those for individuals who have to pay on income.

### **The Side Effects of Company Taxes**

On the face of it persons and legal persons should be treated the same. The fact that they are not gives rise to many anomalies and tax avoidance issues. They are inherently different as I have noted earlier. But I can see no good reason for them to have a different Income Tax rate. One might well then offer more incentives for companies, and people, to do socially beneficial things instead of just piously exhorting them to do so. There are plenty of precedents with deductions for donations, apprentices, research and the like.

The idea of companies has been of enormous benefit as well as enormous harm. Some companies extended the empire by reaching around the world. The Hudson Bay Company helped to establish Canada.

And Wikipedia says:

*"The East India Company (EIC), also known as the Honourable East India Company (HEIC), East India Trading Company (EITC), the English East India Company or the British East India Company, and informally known as John Company, Company Bahadur, or simply The Company, was an English and later British joint-stock company. It was formed to trade in the Indian Ocean region, initially with the Moghuls of India and the East Indies, and later with Qing China. The company ended up seizing control of large parts of the Indian subcontinent, colonised parts of Southeast Asia, and colonised Hong Kong after the First Opium War"*

Is it any wonder that companies have great influence with Governments. They even advocate to have seats in the United Nations. There are many companies which have more assets than

entire countries. Those with the power or global reach can make decisions which can affect whole countries or businesses within them. And because companies can own or part-own other companies it is almost impossible to determine who actually owns the wealth and can make the decisions,

Every tax change has an effect on companies. They can react to protect their own interests. Their drive to increase profits and reduce costs has resulted in many and complex manoeuvres to move production between countries with more lax laws regarding disposal of wastes, lower wage rates, fewer labour protections and benefits. They also manipulate their accounts and expenditures. I once sat in on a brilliant exposition to an international company by one of the internationally linked accounting firms on how to move profit through multiple places like Uruguay and the Bahamas to minimize the total tax take. Totally legally.

The effects of the Covid 19 pandemic will be far reaching. It highlights the need for states to be self-reliant so that they can close their borders to any extent necessary and still function when their supply lines are disturbed. Self-reliance is also necessary for a state to be able to have social goals for their population which are higher than for others This need for self-reliance is in direct conflict with the needs of multinational global companies to locate their production in the lowest cost areas of the world and make use of the ever reducing costs of distribution – with containers and massive ships.

I will comment more on this in Part 2 and point out that technology has a potential for multinationals to distribute their production more widely – instead of having, perhaps, 20 robots working in one location they might be spread over multiple locations and draw more on local supplies and suppliers without necessarily losing the objectives of "free trade".

This is a huge and difficult subject which reaches far beyond the fact that any new tax such as to pay for BIs or to recover from the pandemic will have a potential to affect multinational company's decisions.

My only suggestion, made in part 2 is, possibly only for the countries with multinational "free trade" agreements, to have general – not specific – tariffs which are proportional to the level of unemployment in each country. . This needs a lot of thought and modelling before it would be possible to reach such agreements. But

it seems to me to have some potential to assist in the development of self-reliance for states as well as meaningful "free trade" on a rules-based platform.

Benefits, taxes, self-reliance and well-being are gloriously intermixed. Fortunately the Resource Tax necessary for BIs will not have significant impact on most company decisions.

Finally, there is merit in the idea giving all individuals a Basic Income to help alleviate the inequality caused by those who have enough to benefit from the advantages of sharing in the benefits conferred on companies.

Those who can afford to join pension funds (such as Kiwisaver in New Zealand) do get some of these benefits as pension funds invest heavily in companies.

## **Chapter 5. Principles for BIs**

Having worked through a number of alternatives and suggestions from different authors and individuals I have arrived at some clear rules that I suggest should be implemented as far as possible. These are:

- KISS - Keep It Simple Stupid – a piece of wisdom from computer programmers.
- BIs are tax-free
- Income Tax is a constant rate for all other income up to a higher level of, maybe, \$150,000 per year.
- Same payment to everyone dependent solely on age.
- Hardship allowances are available but strictly targeted and monitored.
- Most other benefits and restrictions are abandoned.
- No restrictions, stand-downs or "claw back" on earning other income.
- No change depending on a partner's income or private lives.
- No tax exemptions for any individual or group of individuals

The application of principles is difficult. There always seems to be an argument for abandoning a principle in a particular case. It is essential to carefully seek the side effects and consequences of such

actions. One where the argument is clear is in the case of disabilities where the group of disabled people need a hardship allowance in addition to the BI.

I have stressed that the HIT does not yield a large enough payment to enable the great complication of our present system to be properly simplified. Another tax will be required to achieve this and reduce inequality somewhat.

There is a nice vibe about the idea of a Wealth Tax. A short look at the Wealth taxes of India and France convinces me that their requirements for listing of jewellery and expensive items on an annual basis is prone to evasion and unnecessarily complicated. The value of land and buildings is a good proxy for total wealth and is the base on which Local Body Rates are levied. Regional Councils add a levy to these Rates and my choice for a new tax is therefore another levy on the improved value of properties collected with the Local Body Rates – easy to collect and hard to avoid. It is surprising that Governments have always been fixated on Income Taxes while local bodies have always been funded by Rates.

So what should the name of such a tax (levy) be? It could be named an "Asset Tax" because in time it may extend to other things (such as cars) which have to be registered in the same way as property. But it may be better called a "Resource Tax" because all property consumes the earth's resources in its creation and maintenance. And I will use this name.

Hopefully, in this time of shortages of supply, plumbers, builders and other tradespeople as well as difficulties in providing and maintaining infrastructure such a tax will constrain the building of ostentatious mansions and large houses. A \$30,000,000 construction, such as is reported to be the cost of ex-prime minister John Key's new family home would, presumably, use the resources for 30 \$1,000,000 homes.

Some people advocate for a tax on land only but all the arguments that I have heard for a land tax apply equally to a full property tax. This also avoids the spectre of an elderly widow having to pay the same levy as the multi apartment blocks on each side of her. It should also be remembered that much land is now "developed" meaning that it is now sculptured, "built" and improved in the same way as buildings themselves. So it is not really "unimproved".

The biggest problem with land taxes is that they bear heavily on farmers. To get the same revenue a land tax has to be some 3 times higher than a levy on the full property value so it would greatly favour the urban dweller with the same property wealth as a farmer.

There are, of course, many different types of farmer. Small farmers with a farm worth perhaps \$2,000,000 would pay \$10,000/yr with a 0.5% Resource Tax. But if, as a couple, they were for example getting \$22,000/yr in BIs they would be much better off and more able to withstand a downturn in the dairy price. This would be even truer for a couple share-milking with the hope of eventually buying their own farm since it would be the owner paying the Resource Tax. Stock, of course would not be subject to the Resource Tax. And overseas owners would not get a BI but would be subject to the Resource Tax.

There are a few councils which levy rates on "Unimproved Value"- a Land Tax by another name. This shows the problem even more acutely. To collect the same total amount in rates those with older or modest homes have to pay more while ostentatious properties pay less when their land values are the same. They also make greater demands on the Council infra-structure. They make higher emissions when constructed and probably also after they are built.

A further side effect of the rates being based on land value only is further injury to the traditional "Do It Yourself" ethos. Instead of a young couple being able to raise a mortgage to buy a section then slowly use much of their own labour to build a home the cost of the rates and the other council charges work against them.

In "Some Building Blocks" in chapter 3 above I made some comments on my answers to some of the major questions for establishing a Basic Income for adults which would have many of the desirable features of superannuation – such as being universal for the age group and unconditional. We now have to consider what size the BI should be. That will determine the sizes of the tax or taxes that are chosen.

## Chapter 6. The size of the Adult BI.

At \$9,080/yr the HIT component of a BI would, on its own, have some of the BI benefits noted above. But how would the country pay for something larger than \$9080/yr and how big should it be? Especially if the Hit idea is abandoned.

The question looms large if we wish to replace all the bureaucracy and surveillance, leaving just that necessary to continue to provide hardship allowances. This replacement is needed if we are to become almost entirely free of stand-down periods, targeting, surveillance and poverty traps. The tax-free BI would then simply depend on age. For this replacement we need to move the Adult BI payment to a minimum of something like \$11,000 per year. **Then, using 2015/16 figures to get consistency across various data sets, without the HIT we will need some 35 billion dollars more to be collected in taxes. OUCH!** So the HIT is essential if we are to avoid a different massive tax in order to have a BI of \$11,000/yr. **Note that, as set out in the first section of this book, the HIT would probably provide \$9080/yr without any additional taxes at all..**

And while about \$11,000/yr would, in 2015/16, have let us remove most benefits (excluding of course Superannuation and Working for Families) without making the recipients worse off it would not improve things for those currently receiving them. The cost of hardship allowances could have remained at about the then current level unless it was decided to make them more generous. Nonetheless let us work through the idea of having an Adult BI of \$11,000 per year and HIT. The same process can then be followed to find the consequences of choosing some other figure.

All the Adults would be receiving \$11,000/yr. Those above \$70,000 per year on a tax rate of 33% levied on all of their income would then be paying an extra \$9080/yr each while those below \$70,000/yr would be paying proportionately less. But all this payment of the increased rate by those both above and below \$70,000/yr adds up to about \$22bn. We might also save over \$6bn/yr from reducing or removing existing benefits and bureaucracy. This needs careful detailed consideration with decisions to be made benefit by benefit and other assignments or redundancies for the displaced staff. Accomodation allowances and things like Accident Compensation should be considered so that there was no "double dipping". For example, would the "Gold Card" for Seniors be cancelled. It may be

worth more than \$10,000/yr to a Waiheke resident working in Auckland but nothing to a rural dweller.

However, using the 2015/16 figures we would still need about 7bn more in tax if we had a tax-free Adult BI of \$11,000/yr and the HIT.

I conclude that for the moment we should just take the first step of implementing the HIT.

I have taken no account of how people might behave if they are given money by the Government. They may save it and pay down debt making more money available for others to invest or they may spend it thereby paying Goods and Services Tax (GST) back to Government and boosting economic activity whereby more GST or other tax is collected. Please refer back to the Covid Section for more up to date figures using 2018/19 data.

### **The Choice of Tax**

In the earlier section I have discarded the idea of using a land tax and have talked of a Resource Tax but there are other possibilities. In this section my purpose is to look at some of those other possibilities which might cover the shortfall and reduce inequality.

The uniform income tax rate could be increased from, say, 33% to 34% at \$150,000/yr And by a further 1% at each extra \$50,000 per year up to a maximum of, say, 45%. The increased rate would be applied to all of the earner's income to minimize the steps and avoid the higher paid people from benefiting from lower rates on the lower parts of their income. I will not pursue this further in the following discussion but believe some such increase to be desirable.

Increasing the uniform Income Tax rate from 33% for all income to 38% would provide the necessary 7bn. But everyone earning more than \$50,250/yr would then be worse off than when they were paying the current taxes. Their \$11,000 would have been eaten up at the increased tax rate. So I will also ignore this possibility in the following discussion.

The size of the Adult BI and the Uniform Tax rate chosen determine how much extra tax is needed. This and the tax chosen will determine the winners and the losers with a new system. The necessary choice for political acceptance may be to have at least 70% of the population as winners.

There are many possibilities to consider such as financial transaction tax, stamp duty, putting company and personal taxes at

the same level, higher taxes on higher incomes, capital gains tax, modern monetary theory and others.

Financial Transaction taxes have some attractions but I have not attempted to quantify their use. It would seem easy to reinstate something like the old two pence stamp duty on each cheque but to level it on a percentage basis for the transaction. Especially as cash and cheques are being phased out by on-line processes and the credit card companies charge the merchants accepting credit cards a small percentage on each transaction. Perhaps an additional 0.5% or more added to these credit card charges and to the use of bank-cards would gather the required revenue for this or other purposes. It may

be possible to extend the net to the various cryptocurrencies but I do not have enough knowledge in that area to make any prognostication.

The increase in inequality creating social disturbance, a concentration of wealth and power in fewer hands, and depression of economic growth have become a major concern around the world. One of the objectives of any method of financing BIs should be the redistribution of wealth, not just the redistribution of income. The Resource Tax explained earlier meets this objective.

Local Body Rates are paid by companies and trusts as well as people. With no exemptions for "family homes" evasion and avoidance is difficult. By taking the same approach with a Resource Tax we avoid huge complications in defining family homes.

In any case family home exemptions are grossly unfair. A 0.5 % levy on a "family home" of \$20m is \$100,000. On a \$1m home it is \$5,000. Once again those with more wealth get more benefit from the exemption. If your family home is an old car the exemption is worthless. And renters don't get the exemption benefit but will inevitably end up paying the tax.

A Resource Tax, with no exemptions, is thus worth serious consideration. Property is a good proxy for total wealth and it is hard to hide. A Resource Tax might ultimately include the value of motor-homes, helicopters, cars, boats and such like but starting with real estate would make use of the existing valuation and rating base which we have in place. **The Improved Value tax base was some 1,330 billion in March 2017.** 1% is 13.3 billion. And it can start to reduce inequality as those who have more resources pay more.

So, in 2015/16 the Adult BI of \$11,000/yr could have been funded with a uniform Income Tax of 33% and a Resource Tax of about 0.5% on ALL properties. One might add a Stamp Duty on house sales to cover contingencies. At the date of writing, June 2020, the same taxes would fund rather more – I guess at about \$13,000/yr thereby still covering the removal of most benefits without making the beneficiaries worse off.

A great advantage of a Resource Tax is that it directly addresses the problem of people continually building larger houses with their demands on the world's resources during their construction and then on their maintenance, heating, infrastructure, land areas and the like.

I have chosen \$11,000/yr as an example from 2015/16 which would have left most beneficiaries in the same position. But the Welfare Expert Advisory group has reported with recommendations which amount to some 47% more being spent on benefits. They have not made any suggestions as to how this could be funded. But if the necessary sum is available from other taxes then it could be better applied via increased BIs.

The beauty of the BI approach is that whatever its level there is still an incentive to have a small job or a larger one as there is no claw-back or reporting requirement for the income. Higher BI rates require more funding.

With \$11,000/yr for the BI and a 33% flat tax the Resource Tax would have needed to be about 0.5 % in 2015/16. At \$13,000/yr the Resource Tax required became 1%. One might simply add a Stamp Duty of the Australian sort at some level. These are some of the calculations that need to be done and judgements made about the right choices.

For the moment I will illustrate the position for 2015/16 with an \$11,000/yr adult BI as described above. Note that larger BIs are possible depending on the political judgment of the electorate's attitude to the combination of BI and tax proposed.

Note that we are here considering only Adults and the Adult BI. Superannuitants are discussed in another section below.

With an \$11,000/yr tax free BI, a 33% tax on all their other income and a 0.5% Resource Tax on the Improved Value of their property we can easily tabulate roughly what the net effect would be for different people. Some might have a current benefit which would be removed

and replaced by the BI. The net effect on their income would be zero but they would be no worse off with the new system.

With the level of BI I have suggested those who have no income and no home would each be better off by the tax-free \$11,000 per year. If this figure is properly chosen, then those on a benefit with no home would be no worse off than at present. The BI would replace their benefit.

The worst-case scenario could be someone who lost their benefit of \$11,000/yr but had a \$1,000,000 home. At 0.5% Resource Tax and a BI of \$11,000/yr they would be \$5,000/yr worse off. At least they would not be paying rent and if they shared the house with a similar beneficiary would be much better off than most of those renting. Alternatively, they could possibly down-size and hopefully ease the housing problem for a family. Or take a reverse mortgage. These provide for money to be paid regularly to the owner of a property and have it build up, at interest, until the property is sold or the outstanding amount approximates to the owner's equity in the property. At this latter point the property probably has to be sold. Even if their equity was only \$200,000 in the \$1,000,000 property it would take some years to extinguish their equity so that in many cases there would still be some equity for their heirs.

Reverse mortgages should be available from a Government organisation - as of right - for meeting their Resource Tax. Perhaps they should also have to be incorporated in normal agreements so that people's homes cannot be subject to a "mortgagee sale" simply because they have fallen behind on mortgage payments. Such sales often result in the owner losing a lot of equity without recourse.

With the \$11,000 per year I have chosen as an example then those on an income of \$70,000/ year and no benefit would be better off if they had a home worth less than \$384,000  $\{(11,000 - 9,080) \times 100 / 0.5\}$  otherwise they would be worse off. Of course if there were two occupants each on \$70,000 they would not be worse off until they had a property worth more than \$768,000.

The ones who would start to lose would be those with higher incomes AND higher value homes. This highlights the need to raise the income tax for those on higher salaries.

There are currently various vexatious penalties depending on incomes - such as depriving children of student loans if their parents earn too much and reducing Working for Families benefits. If incomes

are properly taxed then these various penalties can be dispensed with.

The time for having an Adult BI for everybody depending only on their age has arrived.

A great deal of thought, effort and public discussion is needed. Each decision is likely to impact on other decisions and the side effects need to be thought through. The transition to establish working systems for collection and payment needs care. Transition problems are discussed in Chapter 8.

There are many knotty questions to be decided. For example when the new payments are being made to everybody should tax exemptions for various groups be abolished - maraes, church property, various NGOs. An exemption for one group requires more tax to be collected from others.

Choosing the level of the BIs and therefore the accompanying tax and tax rates is yet another matter. For example at \$13,000/year the Resource Tax needed was about 1% in 2015/16.

My focus up to this stage has been on the Adult BI because there are already Superannuation and Working for Families systems in place. It can be argued that they do not need to be replaced. But, if they are not replaced the effect of the taxes for the Adults will affect them. For example rents for properties will be affected by a Resource Tax. These groups already have budget allocations and there are recommendations before Government for their substantial increases. So it is less certain what the costs of changing to BIs might be. And the desirable levels of BI to replace Working for Families depends on the levels chosen for Adults and Superannuation.

So I will further consider below only the case for Superannuation to be put into BI format and assume that any extra cost has to be recovered with increases in the chosen tax system. But first let us consider an interesting possibility.

### **Taxation and the Housing Shortage**

Taxation is one of Government's greatest weapons and can be structured to achieve social objectives.

In Chapter 7 below –the Singles Problem – I suggest that there be incentives (negative taxation) to assist the elderly living alone to join with one or more others to reduce loneliness, anxiety and dependence on District Health Board assistance. I expect some of the, roughly 200,000, people who get the single living superannuation

alone benefit would take advantage of what I suggest thereby leaving some thousands of houses and apartments for others to occupy.

Similarly, a Resource Tax could be structured to reduce the emissions and demand for resources of all sorts from building new houses. We have many regulations for building new houses of higher quality and higher price than in the past. These, combined with restrictions about the size of mortgages prevent many of the Poor from ever owning a house at all.

“Tiny houses” are prohibited with the best of intentions but they should have a place. I had a good friend who, with 8 siblings, all grew up in a truly tiny house. They had a wonderful mother and a loving father who was often unemployed. All of the children were well adjusted and successful.

However, I also know of nothing that inhibits the building of large or grandiose properties by those with enough money. Giving a Basic Income or rise in Basic Income at the same time as imposing a Resource tax on the value of property would protect those with lower incomes from the effect of the new tax. And it might inhibit the construction of bigger homes with savings in resources and emissions.

For example, whatever the rate of the Resource Tax at lower levels of value it could increase by say 0.1% at a valuation of \$2,000,000 and go up by 0.1% for every extra \$1,000,000

### **BIs for the Missing People**

In chapter 2 we saw that due to "targeting" there were many people who were excluded from the current benefit system. There are, anecdotally, many more who are entitled to benefits but do not receive them.

It is reasonable to expect that with the simplicity of the BI system from the viewpoint of the recipient the problem of the lack of uptake by persons who qualify for benefits will be very small. Surveys in Britain have found that in some cases only some 70% to 80% of qualified recipients have actually received particular benefits. But with media coverage and checking those on current benefits, in prison, on the electoral roll, with IRD numbers and ratepayers the coverage should be very high both from the outset for those receiving BIs and paying for them. This effect, of itself, will be of assistance to many people

Note that various data required for accurate calculation are not concurrent and/or not available. Other choices of the age ranges are possible. Child/teen and Superannuation systems need to be brought into the same format with the consequent administrative advantages. All of the figures that I have used need to be updated and developed in detail, but I believe that it should be clear that BIs offer huge benefits including security for the future of our people and democracy in the face of technological and climate change combined with the continuing global population increase.

## **Chapter 7. Superannuation as a Proper BI**

Other benefits have been endlessly "tweaked" and complicated by increased targeting which makes those administering the system sometimes appear heartless and unresponsive while many of the "clients" do not understand the process. I have already shown how to apply the principles above to deliver a BI for all Adults aged 18 to 64 and to pay for it with a 33% rate of tax on all income plus either an increase in this rate or some other tax.

Some people have assumed that there will be one level of BI for all adults regardless of age and that either it will be comparable to Superannuation or that Superannuation will be diminished. Both of these thoughts are untenable. There are roughly four times as many in the 18 to 65 age group as those 65 and over. The tax to pay the Adults at the same rate as Superannuitants is untenable. And the lowest level of Superannuation is already too low.

As noted before the present system is a wonderful example of a BI which for nearly 80 years has largely solved the poverty problems of the elderly. It needs some changes to remove the distinctions between different marital and other states which are no longer easily defined and to have superannuation comply with the principles above.

It is common for people to become weaker, slower, forgetful and less adaptable as they age. Their earning capacity diminishes. Their health and energy decline. Associated costs rise. It is appropriate at some age for them to be rewarded in return for their years of contributing to the community. The pressure on them to "perform" is

then reduced and they can work shorter hours or contribute their wisdom and experience to children, grandchildren, NGOs and others to the extent that they are able.

Further, one of the major objectives of any change has to be to **ensure that the less well- off are not more disadvantaged**. Thus, Superannuitants need to continue to have a different and higher payment than the Adult BI.

Also, it is probably inevitable that whatever tax is chosen will impact on Superannuitants, just as on Adults. Thus, a Resource Tax, for example, will affect Superannuitants with property.

This, in part, is the justification for adjusting the Superannuation payment and for increasing it somewhat. Also, as pointed out in an earlier chapter, there are human rights at issue here. Why should a woman, or a man, get a lower Government payment because they are married than if they were "single-sharing"? And why should a "single-sharing" person get paid less than a single person?

I have already shown how to apply the principles above to deliver a BI for all Adults aged 18 to 65 and to paying for it with a 33% rate of tax on all income plus either an increase in this rate or some other tax.

So let us now consider the taxation of Superannuitants in 2015/16 and making it into a true BI.

There is always a sobering effect from actually having some numbers to think with and for understanding who will win and who will lose from any political decision so we need to have some arithmetic.

Continuing the current custom of taxing superannuation as if it was earned income and increasing the tax on it to 33% on every dollar would be disastrous for many so changes have to be made. To conform to the BI principles, there should be one BI rate for all in the age group. Currently, there are disparities which violate this principle. Information kindly provided by the Inland Revenue Service and Social Welfare Departments for 2015/16 shows that with 33% tax an extra \$1,464million would have been collected from Super annuitant's "other income" and this collection is used in my calculations to help pay for the Adult BI. It is not then available to help increase Superannuation payments.

The same information also shows that in 2015/16 \$12,581million was the total Superannuation payment including tax of \$1,888million. The latter amount would have to be collected to make the existing

levels of superannuation tax-free. If the Superannuation payments were all to be brought up just to the 2015/116 tax-free single level of \$18,495/yr then only \$1,612m more would be required because the single living alone people would not benefit from the change. Increase to all the superannuation payments may then have to be considered at a later stage but as a first step making all payments the same would remove the anomalies and benefit many. I will take it that this first step will be exactly that and use the \$1,612 million in further calculations here for the required tax collection to make superannuation into a proper BI. The harassment and surveillance about living arrangements which are often reported would then cease. With this uniform BI none of the Superannuitants (including the singles) would be worse off and many would be considerably better off if they did not own or rent a home which would attract substantial Resource Tax. The cost of this \$1,612 million move is substantially less than the \$1,888m needed to simply make all Superannuation tax-free because the single living-alone people would be getting no increase. Others get more or less than if their current payment were to be tax-free.

### **The Singles Problem**

The \$1,612 million, of course, has to be paid for. If it were to be paid for by increasing the Resource Tax then this would rise by about 0.124% making the Tax roughly five eighths of 1% or \$6250 on a 1,000,000 property.

More data and study are required but the increases proposed mean that singles-sharing who then get the single tax-free rate will be some \$3,000/yr better off between them. This increase will serve a 0.625% Resource Tax on a \$480,000 home without making them worse off. Or be a considerable help in meeting rents. Married couples would be some \$7000/yr better off between them and could pay the Resource Tax on a \$980,000 home and still be as well off as at present. Remember that house owners do not have to pay rent.

Earlier remarks about reverse mortgages are possibly even more relevant for Superannuitants. As noted earlier some single "living alone" Superannuitants may need assistance either to make other arrangements, such as sharing, or to have hardship allowances. But a reverse mortgage, particularly if this was government run, on a fully owned \$1,000,000 home could well take 100years to exhaust that

value. Those who own properties have alternatives available to them which the homeless and the renters do not have.

One of the "advantages" of this difficulty could be that the financial incentive to live alone - or claim to be living alone - which is embodied in the present structure would disappear. People may need help to make the effort to share with others, but it is especially important as people age for them to share premises with others. They then may be able to share tasks, to reduce loneliness, fear and depression as well as to support one another for a long time instead of needing to have external official (and costly) assistance from the District Health Boards in order to survive in their existing premises.

At present one of the problems is that if a "single living alone" person joins with another then between them they lose some \$4,000/yr. This appears an incredible barrier for many who would like to join with another in order to have comfort and security in their old age.

**If there were to be a matchmaking (and mediation) service provided by Social Welfare and a positive financial incentive provided it may well be that some 10,000 or more homes and apartments would become available for others to live in. This would relieve some of the housing pressure and could well be largely covered by the savings in DHB support, the costs of keeping people in motels and attempting to help those in need. The sort of thing I am thinking of is to "capitalise" say 3 years of the permanent loss in superannuation so that the pair would have some \$12,000 available to cover the costs of moving and disturbance.**

Some may say that as well as the superannuation being tax free the recipient's homes should be free of the Resource Tax. As noted earlier one person's exemption has to be another person's tax and leads to avoidance manoeuvres which leads back to bureaucratic surveillance and prosecutions.

One of the many reasons for saying that we badly need a full comprehensive study of all the possibilities of BI is that we need to work through many issues to arrive at balanced decisions in making changes to obtain the social benefits of BIs and modernise our tax and benefit systems. The temptation to re-introduce complexities with targeting aimed at correcting every difficulty needs to be avoided. Far better to have hardship allowances granted - always for limited

periods - by a small bureaucracy with administrative discretion. They should then often be able to direct people to other services which can help with their social situation.

For example it would help those who are property rich and income poor if the Resource Tax was kept low by increasing the uniform Income Tax rate. In 2015/16 the total Income Tax take at 33% would have been \$49,438 million. So an increase of 1% on the Income Tax rate would have been about \$0.5 bn. To give all of the 693,000 superannuitants in 2015/16 an extra \$1,000 per year would cost \$693m or about another 1.4% on top of the 33% uniform tax take. It could also be covered by an increase in the Resource Tax. But either of these tax changes would affect the recipients of the extra \$1,000 per year as well as many others. Possibly it would be better to use another tax, such as the Australian's stamp duty charged on the sale of properties, or a transaction tax.

Almost everything is connected to everything else. So whether benefits are dispensed in a targeted way as at present or BIs supersede many of them their net effect will be affected by most tax changes.

A mixture of easily defined and collectible taxes, with none of the complexities of targeting and exemptions, should allow a much better balance in the pursuit of greater equality and with the many improvements in social well-being noted in Chapter 3. BIs are eminently feasible for Adults, Superannuitants and Children.

Note that various data required for accurate calculation are not concurrent and/or not available. Other choices of the age ranges are possible. All of the figures that I have used need to be updated and developed in detail, but I believe that it should be clear that BIs offer huge benefits including security for the future of our people and democracy in the face of technological and climate change combined with the continuing global population increase.

### **Repurposing the Cullen Fund**

This sovereign wealth fund was established in 2001 under the fifth Labour Government and became known as the "Cullen Fund" after the Minister of Finance who established it. Its purpose is to safeguard the future payments to Superannuitants and maintain the retirement age at 65 years.

The fund had large Government injections up to the GFC in 2008 and less since. But it has been largely and profitably invested overseas so that at March 2020 it was close to NZ\$44bn.

However, a recent paper by Bill Rosenberg (see Ref 7) has shown that by considering the tax clawed back from Superannuitants and the reducing proportion of dependent children the concerns about a declining ratio of workers to dependents would not be as concerning in the future as had been supposed. So the Cullen fund may reasonably be considered for use in various disaster situations. The fact that it is largely invested overseas may prove beneficial.

With the change in circumstances the whole approach to this fund should be rethought. It could, and I think should, be used in much the same way as the Reserve Bank of New Zealand's (RBNZ) operations to stabilise the economy. Whether it should in fact come under the RBNZ should be considered

Instead of the RBNZ trying to stabilize the economy with limited slow-acting variables under its control it would be possible using the Cullen Fund to manipulate the Basic Income to get rapid response to perceived inflationary or deflationary pressures. This could be distressing and dangerous, politically fragile but useful. Instead of changing taxes and perhaps waiting for budget times a 1% cut or increase in the BI with one month's notice would yield over \$300m. Its effect may be more dramatic for the public than the monetary amount. There would need to be statutory limits on such a manoeuvre so that a change of Government did not undermine the whole concept. But changes of up to, say, 5% in a Government term could be useful to curb or promote activity in the economy.

## **Chapter 8. System Transformation**

How to get there from here is a non-trivial problem. The purpose of this chapter is to outline some of the work that must be done to make such a transformation. In many cases the current infrastructure currently exists and can be adapted but in others some new development will be required. Various laws, such as the Social Welfare Act, the Income Tax Act and the Accident Compensation Act will need to be reviewed and amended.

A major point of departure for the Resource Tax is the question of whether, in the case of a house, should its value for the owner's tax

purposes be the notional sale value or the sale value less the mortgage? In other words is the tax levied in the same way that local body rates are levied or is there a system somewhat like Goods and Services Tax (GST) where every component of the resource is taxed separately.

In the latter case the net equity in the house would be counted as wealth of the owner but the equity represented by the mortgages would be counted as a resource of the bank or mortgagor and the lenders of money would have it taxed as their resource. It could become very complicated. The simplifying concept of a levy on rates would become impractical as the mortgagors would also want to recover the new taxes. The split between owner and mortgagor would need to be continually adjusted as mortgages are paid off.

The most practical solution I believe to be to have the owner of the property accountable for the entire value of the property – just as with local body rates. They are, after all, the ones who are using and managing the resource.

There are other problems when dealing with companies. I now believe that the best solution is to treat companies and persons in exactly the same way. That is to add Resource Taxes to Rates as a percentage of the improved capital value of all rateable property.

An interesting corollary is that money or shares should not be counted for the Resource Tax. Very much in the same way as with Goods and Services Tax (GST) where the finance sector was exempted from GST for similar reasons of complexity. And the end result for the owner of the resources would be much the same since, if a Resource Tax is levied on providers of finance along the way, this finance cost will be passed on in any case. And the opportunities to "game" the system will be increased if share value gains are taxed and, in fairness, losses are credited.

One ends up with a fairly straightforward system where money deposited by someone in a finance company, bank or company bond is not counted for purposes of the Resource Tax but all rateable property is so counted.

It may seem a little strange not to count money as a resource but money does not use the resources of the planet and to the extent that it is loaned to someone who does have physical resources then this final owner will pay the Resource Tax but there will be no double

taxation or the great complication of dealing with tax accounting all along the chain.

A Resource Tax could be added to car registrations and a levy collected on insurances for personal property and house contents insurance if one chose to do this. Most, probably all, of these Resource Taxes could be collected without requiring any special accounting or returns provided that there are no exemptions. The appropriate tax could then be collected from each resource separately as it was registered. There would be virtually no administrative impost on the taxpayer. But, in the beginning at least, I believe we should confine the Resource Tax to property.

With such a Resource Tax administered simply by a percentage addition to rates many of the difficulties associated with a more comprehensive Resource Tax drop away. Rates are a small component of the costs of almost all companies and the addition is likely to be a small part of the total rates. The effect on start-ups and forestry companies is then such that I do not think that any special consideration will be required for them.

One attraction of a Resource Tax is that it should increase the pressure for the capital in the country to be put to productive use. Amongst other things it should be a disincentive to spend huge sums on elaborate houses and the like.

### **Transformative Change**

What we are considering is a major transformative change. It is not something to be undertaken lightly or precipitately. It is of a level of complexity which is worthy of the best attention of our Public Service. It needs to be carefully staged and well thought through before implementation step by step. But the effect on our social and economic well-being will make the difficulties worth the effort.

A different tax from the Resource Tax might be chosen to finance the BI but it should be one which reduces inequality and has the great advantage of the simplicity that is proposed here.

Whatever taxes are chosen to pay for the BI the taxes will have to be paid by everyone who either has an income or resources (assuming a Resource Tax is chosen). This will diminish, or make negative, the net benefit of the BI for some people.

So, in principle at least, we would end up with a very simple cost-effective tax and BI system which would reduce inequality. In practice there will still be a need for top-ups in some cases but if the BI is in

any way generally adequate these should be few in number compared to the present system. For example with a reasonable BI for both parent and child or children there should, in most cases, be no need for a separate Domestic Purposes Benefit for single parents.

Again with BI the problem of people being unable to work for any reason which does not qualify them for a current benefit before reaching superannuation age will be reduced. They will have their BI.

As I discuss and reflect on some of these issues I have come to understand the interconnections better and the difficulties of separating the transition into digestible steps. The purpose of these comments is to assist in choosing those steps and defining the initial tasks which different people could then address.

Much of the difficulty is planning the various operations so that finances stay in balance so that Government or people do not have cash flow problems. Part of Government's cash flow could depend on reducing staff. The latter raises questions of redundancy payments, alternative Government employment and the demand for labour in the economy as a whole. What is required is a constructive approach to the considerable changes that will affect many people.

There needs to be a huge amount of detailed costing. All that I will attempt here is to outline some thoughts to start the process. The final policy decisions will depend on the costings and vice-versa.

There are many statements made by political parties to the effect that they will reduce inequality, the poverty trap, child poverty and such like but no indication of how it will do them. The BI system I have outlined is a practical approach to all of these things.

Here I will take it as fixed that we will go to a Basic Income financed as I have proposed but many of the same issues would arise if the BI was financed differently.

There are many minor policy details to be decided before building a more accurate model for deciding on the levels of the BI, "Uniform Income Tax" (UIT) and Resource Tax. For example, whether to have higher Income Tax rates for income above, say, \$150,000 or \$500,000.

There needs to be a phased introduction so that systems can be proven with training and the establishment work-loads carried by existing staff before staff numbers are reduced. This means having some groups of people brought into the system before others. Clearly when one receives a BI then one should immediately also start

paying the Uniform Income Tax (UIT). The problems of non-citizens, overseas students, those with work permits, refugees and the like need detailed attention.

So let us now consider various possible choices of steps if we were proceeding in "normal times" implementing BIs for the different groups progressively across the country.

### **Children/Teenagers**

In some respects this could be a good place to start. One of the choices to be made is the grouping of ages for particular BIs. We now have the Best Start payment for 0 to 1 year-olds which is universal. There are arguments to support higher BI rates for children below 5 or 12 or some other grouping. But there are also arguments for higher rates for those who enter high school and so on. In the interests of simplicity and being unconvinced by the arguments for distinction between the costs at different ages I have accepted the normal legal distinction at 18 years as the appropriate point for cut-off of the child category.

It would be possible to implement this BI recognizing that the group will probably have neither much income nor property and therefore only getting the payment system operational and proven in the first instance and leaving the balancing tax collection until later. Stopping part of the Working for Families package payments and combined with the idea below of starting with a small geographic area and following up quickly with the other BIs plus the taxes in that area has some attraction and may not be too costly as a way of proving a part of the system before extending it.

### **The Unemployed.**

Another group of people to consider moving onto the BI could be the unemployed. They would simply move to a regime of having the BI and the new tax regime. With one rate for all the unemployed Government would not be involved with individual life-style choices or the snooping and surveillance that follows from such divisions. Stand-down and "claw-back" would disappear.

However the difficulties of deciding when one became or ceased to be unemployed and moved from or back to the current system seem to me to be so great that this cannot be considered as a practical separate step. And even if it were the unemployed are also less likely

than others to own a property or have a high income so there is the same cash flow problem as for children/teenagers.

### **Superannuitants**

The next step might well be for Superannuitants. They are already identified and it would be easy to change the payment rates as I have indicated. As with the unemployed the snooping and court cases to determine if one is really single and living alone would disappear if there were only one rate.

It would also be easy to put them onto the 33% rate and applying it only to "other income". This would cover the increased payments noted above. It would be much harder to impose the Resource Tax on Superannuitants alone. Consideration of Trusts, divided ownership, legal manoeuvring and separation issues abound. But again it might be useful to take this step in a limited geographic area as a means of proving the operation of this part of the system including the Resource tax. It may be desirable to provide more social services (home help) for these elderly from the DHBs at the same time.

### **The Rest**

Finally the 18 to 64 group is the large one and with any reasonable tax rate there must also be a Resource Tax or other tax. But even here one possibility to consider would be to split the group on an age basis. Maybe 25 to 45 first as they are likely to be the ones most in need with young families and to add the others later. Once on the new system people would stay on it so that turning 46 would not change one's tax basis

Again however the difficulties in collecting the Resource Tax seem too large for this to be a practical step. One problem is that if people of different ages are sharing a property or it is jointly owned is it subject to the Resource Tax?

The problems of preventing operational difficulties, evasion and avoidance with a lengthy stepwise approach are mind boggling. So too is the prospect of a big bang to get everything started together. It would have a high chance of being a big bust. At the time of writing prior to Covid19 my own choice would be steps based on geographical areas.

With the geographic approach, one would first choose a province in which to start all age groups at the same time and including tax

changes. Or a small region – West Coast or Nelson – with a fairly small defined population. Or maybe Northland or Gisborne.

Then to expand province by province nation-wide. There would be costs but they would be less than with a less methodical approach.

The transition must be carefully thought through in detail and competently managed with extensive "dummy runs", staff training and the retention of an abundance of knowledgeable staff until it is clear that the processes are robust.

In some senses this step by step approach could be thought of as a succession of "Trials". I know of no alleged BI trial carried out anywhere in the world which has collected the appropriate taxes at the same time as making payments to some small group of people. And yet it is the net effect of BIs and taxes which affect people.

There are difficulties in trying to "corral" people which again seem to have been ignored in trials. For example if we choose and publicise a geographic area which is to have BIs it may well have an influx of people with no income or property. This probably is best simply accepted and could have positive effects in having people move from Auckland to the West Coast for example. But the whole country should be brought into the system as quickly as possible. The migrations will then occur but, perhaps, less precipitately.

### **Companies, Trusts and Partnerships**

I have not attempted to calculate the effect of making changes to the tax rules for these entities. I have assumed that they would not be exempt from the Resource Tax.

But a great deal of attention should be paid to the desirability of having the same tax structure and rates for "legal persons" and "actual persons". Such a transition would, hopefully, decimate the tax avoidance industry. Although it will not touch the major issue of the use of tax "havens".

### **Administration Overall.**

What I have proposed is conceptually very simple. Rates are collected by Local Bodies, Income tax is collected by IRD and payments are made by Kiwibank. Each of these organisations will need to make modifications to their computer systems.

My earlier thought had been that the BI would only be given to NZ citizens. But, in this case, those who are here on work permits or who have residency would be grossly disadvantaged by a flat 33% or

other tax on all their earnings. So it is now my view that these classes of "citizen" must be included and would have a weekly BI payment just as others. Their weekly earnings would be subject to PAYE at the flat rate of Income Tax. But the immigration status, arrival and leaving dates would need to be available to avoid under or over-payments. Overseas students should qualify for a BI only under tightly defined conditions including that they are paying significant taxes.

There will be a need for linking and cross matching to various databases for verification and other administration purposes. Considerable thought will be needed as to new rules that will apply to cross matching, security and completeness of the databases, possible falsification of identities and the like.

There will already be mechanisms in place in all departments to address some of these issues but they will need further consideration. And photo identification at least is required, just as with driver licenses. This will all be discussed in some detail later in this chapter.

There is also the problem of the "non-persons" who may have been severely disadvantaged from birth by having had numerous "fathers", whose birth was not registered, their education was restricted and they cannot get identity documents such as passports and cannot get driving licenses, bank accounts and suchlike.

Apart from the BI usage there would be considerable benefit for people at large to be able to notify only one Government agency of a change of address. This would then have to be propagated to all other agencies.

Whether or not there should be a completely separate database set up for BI purposes or whether one or other of the departments should assume this responsibility, incorporate it into their existing database and act as a central point is another decision to be made.

There is clearly a lot of detailed work required. And there are implications across many areas of Government.

Much of the administration, rules, training and the computer systems, for Government, IRD, Kiwibank, MSD and Local Bodies, will need to be in place before any group can be moved to the BI.

And it is essential that a small group be moved first so that the systems can be proven while staff resources can be certain to be capable of dealing with the problems that will require human assistance.

## **Government Employees**

It is not yet clear how much could be saved and how many bureaucratic jobs would be lost by the introduction of a BI but the numbers appear to be likely to be substantial. This may well be the most difficult transition issue to manage. If Government does not behave as a good employer the social standing it should gain from reducing inequality may be largely lost.

Bureaucrat-bashing is almost as popular as beneficiary-bashing or MP-bashing. Apart from pandering to this negative stereotyping a wholesale reduction in government employment, particularly when unemployment is high, would potentially have many undesirable side effects. And such an approach might well be guaranteed to prevent the system from functioning even if it does not render it politically unacceptable to begin with.

I think that a much more constructive approach would be to budget for no initial staff saving from introducing the BI. And instead to manage the training and redeployment of the staff. This will be no mean feat so it is likely that for this reason the full introduction of the system should be spread over a longer period than might otherwise be the case.

There would be some attrition. Voluntary redundancy is possible and it may be that those taking it would be entrepreneurial and that they would not contribute to unemployment. On the other hand there are many departments which can profitably employ displaced staff. Others will be required to give training during the transition.

It would be in accord with the mission to reduce inequality to retrain some staff into planned increases in some social-good areas - child care, in-home care for the disabled and the elderly, teaching assistants, conservation projects, ramped up apprenticeships for the housing developments and others.

All of this needs detailed planning commensurate with the state of the economy at the time and the success of other policies in stimulating employment.

There is a wide range of options. Some basic decisions need to be made, particularly in terms of political acceptability. Then a number of people need to explore different probable alternatives to see if a reasonably detailed and costed system can be coherently linked together for final policy approval. Then all the resources of the administration can be marshalled to put the policy into effect.

## **BI Levels & Tax Rates**

This will be a difficult choice. It must balance many different issues of incentive, fairness, practicality, political acceptability and so on. No easy task.

The fiscally neutral Resource Tax required to pay the difference between the cost of the BI and the return from Income Tax follows from the choice of these two variables.

"All models are wrong, but some models are useful." In fact in all of this work mathematical models are essential for calculation and planning.

There are also many difficult political decisions to be made. For example working out the amount that will be saved by removing benefits which can be replaced by BIs set at different levels will require considerable thought. People desperate for accommodation will pay the maximum that they can afford. Recently Government increased the payments to students by \$50 per week. Immediately many landlords increased rents by the same amount.

Accommodation Supplements currently cost some 2.4bn/yr. But by pooling their BIs many couples could be no worse off without the Accommodation Supplements. There would then be no case for continuing with them and landlords would not have the scope to exploit the advent of the BIs. Hard cases could be required to plead their case for an allowance and the Rent Tribunals could be staffed to allow them to consider opportunistic rent increases and disallow them. Tough stuff. But maybe there is most of the 2.4bn available to offset the cost of the BIs.

It is important that minimum wage rates are retained otherwise BIs may be eroded by unscrupulous employers.

### **Kiwibank – A Little Bit of Cream on Top**

Some of the discussion above may seem somewhat academic and unrelated to the title of the book but technology is increasingly making many more citizens unable to participate fully in their community. In a small village everyone is known to everyone else. Their face is their identity card and everyone knows everyone else's address. But now one has to provide some formal kind of identification for a host of purposes. This is generally a machine readable card of some sort.

But if you are homeless, do not know your birth date or some such item you will not be able to get such things as bank accounts, passports or credit cards. With no address systems refuse to know

you, Not everyone has a smartphone or knows how to work one so "Two factor identification" can preclude on-line banking or other transactions. The cashless society has almost arrived for those in rural, and not so rural, areas with the closure of Post Offices and Banks. Some do not know what to do and need assistance to live in the new age.

I have earlier suggested that one of our "building blocks" should be that Inland Revenue (IRD) will pay into Kiwibank which will then pay weekly into people's cheque accounts. These accounts will carry no account fees."

IRD's payment load can be smoothed out as different people can have their weekly payments on different days.

A good deal of thought is required to minimize the opportunities for fictitious persons and other opportunists to operate such bank accounts as well as to make it easy for everyone and to minimize the costs of servicing enquiries

As noted earlier a "Realme" identity has been brought into operation for some Government departments, such as IRD. A "beefed up" version would be possible. Electronic facial recognition information, voice identification. Retinal imaging and/or fingerprint information could be added at the same time that photographs are taken. Some of these items could be transmitted by an app on smartphones to then easily verify the identity of the person at the other end of a communication without them having to remember passwords. Many other variants for using current technology are possible. Indeed it may be sufficient for voice identification to be held at the processing centre and for a caller to speak a sentence to identify themselves. Facial recognition also could potentially eliminate the possibility of one person obtaining multiple identities. However there are limitations if a person allows others to record and replay their voice or holds a photograph in front of their face. This all needs consideration. These sorts of identification are increasingly being used by police, customs and computer password purposes.

A widely acceptable identifier would be particularly helpful for many.

It may be that homeless, itinerant or other persons with difficulties regarding their address would have to have special arrangements made for them in order to have their Realme issued. This may require

them to register with police or charitable organisations and to report from time to time.

Such an arrangement will increase the number of people able to be fully engaged with the community and to give the legal empowerment of an identity to the otherwise disadvantaged.

The impact of this whole transformative combination of Basic Incomes with service from Kiwibank could be very large.

To minimize the rush on retailers and banks on the day when BIs are paid the payments should be arranged on different days to smooth out the flow of cash as far as possible. Everybody would have their bank card so that they would have much less need for cash or to visit a bank. This would be of great help to those who are frail, busy or in areas without a bank or post office. Combined with a smartphone for on-line banking it would be much easier to take part in our capitalist economy when it becomes fully cheque-less and largely cash-less.

There is a large issue at stake here. Huge sums of money are involved. It is conceivable that large numbers will need to draw down the full amount of their BI each week for their immediate needs. For this, and various other reasons, I have earlier suggested that the BI should not be able to be subjected to assignment or other fixed commitments without a court order and even then that it be restricted. However, I am also clear that there should be no bureaucratic restriction or impediment to people using their BI however they please. This will allow them to spend their money however they wish once it is in their account. So they could withdraw it to spend, pay bills with their bank card or invest it elsewhere. Because of the latter possibility Kiwibank should pay interest on the balances in people's accounts.

Whatever arrangements are made the effect of being the keeper of the BIs will be that Kiwibank effectively has a massive amount of money (tens of billions?) available to it on a continuing basis. This injection multiplied up by the "bank ratio" discussed above will allow it to "create debt" for the funding of Government and Local Body and other projects. In other words Kiwibank could progress down the track advocated by the "Positive" or "Sovereign Money" and "New Economics" activists.

This engagement of Kiwibank would enhance our "self-reliance" and security as a country and would insulate us to some extent

against overseas banks threatening to withdraw from the country if their needs are not met or if they are themselves under threat and want to repatriate loans that they have made to their local branches.

## Chapter 9 Justice

*In a perfect dictatorship everything that is not compulsory is prohibited.* –Anonymous

By its very nature the rule of law must have laws which need to be enforced. There must be penalties. There must be a means of determining who should be penalised. There is necessarily a structured system for this with people involved in the process who are knowledgeable about the laws.

**Our Justice system does not serve the Poor well.** As Ian Mackay, then President of the New Zealand Law Society, once snorted to me when I complained about an injustice "The Law is not about justice – it is a system for resolving disputes". Over time the system has become more and more complicated requiring specialised professional training. The practitioners of such systems form their own organisations and make their own rules to exclude those who are not members of the organisation. They then have monopolistic powers and can agree amongst themselves on restrictive practices and fee structures etc.

The need for the services of the Justice system is sharply divided into two sections – the criminal and the civil. The Crimes Act determines which is which and in the case of criminal acts the Police investigate and take the role of Prosecutor – otherwise it is a Civil matter.

I will here focus on the operations of the Justice system in Civil matters. The distinction itself is not altogether satisfactory. If someone comes into your store and walks out with some goods without paying then it is a criminal matter and the Police will attend to it – you might not get your goods back but at least you will not have to pay for the prosecution. On the other hand if the person asks you to invoice them for the goods and does not pay then it is a civil matter and if you are

to take any action you may have to pay a great deal in terms of Court costs, legal fees and the like. You may still not get your goods back.

Fortunately in New Zealand there is the Disputes Tribunal where the costs of lodging a claim of up to \$20,000 is only in the tens of dollars. As the Consumer website says

*"Disputes Tribunals are the modern, improved version of a small claims court. They can hear cases on almost anything – from hire purchase contracts to cattle grazing, car repairs to fencing disputes and even the quality of ear piercing. But there are some limitations "*

One of the great advantages of these hearings is that lawyers are prohibited. So are many of the tricks that are used by lawyers in regular Courts to delay and impose costs on the complainant and force progress to higher courts by appealing adverse judgments - so that the party with the most money can outlast the poorer one.

Quoting from the Consumer website again:

"Deep in the Disputes Tribunals Act is a small clause with enormous power. It says

*"The Tribunal shall determine the dispute according to the substantial merits and justice of the case, and in doing so shall have regard to the law but shall not be bound to give effect to strict legal rights or obligations "*

That clause gives referees the right to decide cases based on what is fair – not necessarily on what is prescribed by the law. It's probably the most important way in which the tribunals differ from the rest of the court system."

It would be a great help for poorer people if the whole process of the Disputes Tribunal were to be expanded in terms of jurisdiction as to the range of cases and the monetary cap on the value of dispute that they can deal with. Possibly up to \$100,000.

There is a great deal of free help available from the Citizens Advice Bureaus and Community Law Centres. They can also often resolve problems by speaking to decision makers or company managers on your behalf. This is especially so in disputes where a retailer tries to avoid responsibility for what they have sold either by telling the client that it is up to the client to contact the supplier of the equipment or will take no action claiming that the guarantee has expired when they still have a responsibility under the Consumer Guarantees Act.

If you have to go to Court then Legal Aid may be available to meet the costs of the Court and legal representation if neither you nor your partner can do so – but these costs may have to be repaid.

Without a background of some sort in the law it is very difficult for an ordinary person to take their own criminal or civil case in a regular Court. See Ref 6.

One of the problems is that it is not sufficient to identify and study particular statutes which apply to the applicable law.

One has to face the fact that our legal system has been developed over many centuries. Great minds have built on the work of other great minds and there is much to be proud of. Any change will be resisted both because of the vested interest of the current practitioners and because they are rightly proud of the complications of the great system which they have mastered. Many of the practitioners will agree that there is much wrong with the system but then claim that it is the best it can be and any change will be for the worse.

Let us start first by considering the rules of the courts. If one looks at an annotated version of the District Court Rules or the High Court Rules one finds that a rule is given and then there may be several pages summarizing the cases in which judges have applied the rule – often quite differently. I believe that these rules should be "codified". And there should be supplementary direction on how the rule is to be applied - if necessary regardless of what other judges have decided. In New Zealand we have a respected Law Commission which reviews laws and proposes changes. It is well placed to carry out this codification and to take an ongoing role in extending or modifying the rules when it agrees with a request from a judge. Everyone would then know what the rules are. At present, in many cases, it is far from clear.

The same issue applies with respect to many existing laws. Codification and the provision of hypothetical cases for use as precedents is essential to cut the cost of legal action.

Consider the situation with a new law. At present it is passed by Parliament. But there is no experience in applying it – there are no cases. No publicly available authoritative guidance is provided on how the law is to be interpreted. So the legal fraternity goes into high gear, producing papers and running seminars about how this new wonder will actually work. It is all speculative until a case comes

before a judge. Some unfortunates will eventually be persuaded, or forced, to commit to perhaps hundreds of thousands of dollars to "test the law". The judge then may well feel that this is too important for them to make a decision on their own as it is a case which will set a precedent and therefore ought to be widely argued. It really is so important that it should go all the way to the Supreme Court in order to get a definitive ruling. So the judge may make a decision which begs for this long path to be followed. Or the parties may choose to do so because it is not clear that the judge made the right decision.

What is the law? At best it is an ass in these circumstances. A more complicated, inefficient and unjust process could hardly be devised. One of the parties to the dispute will "win" and one will "lose". In fact both will pay huge sums for a "law fest" which, by their case, will have made some case law so that others may then know what the law is – unless, that is, they can "distinguish" their case from the precedent setting case.

Again it would seem reasonable for, say, the Law Commission to provide the necessary supplementary, and authoritative, rules for interpretation of the new law. They could make appropriate decisions on the hypothetical cases which the readers of the new law put to them. Surely this would not be too hard! We might then have some justification for saying that "ignorance of the law is no excuse".

Nonetheless, correct forms and procedures are needed to ensure that Judges and the contestants can readily find what they are looking for. Most importantly your case or defence must be able to specify what law has been broken or what law provides a defence. This will need to be backed up by reference to judgements in similar cases where the laws referred to have been interpreted by other judges.

Solicitors construct a "theory of the case" to determine what laws to rely on and organise the material or witnesses to support the case. They cast aside extraneous material and prepare the case for trial. Then a Barrister will present the case. Presentation needs a different set of skills – establishing and ordering facts before the trial is one thing but examining and cross examining witnesses is another. Most people's decisions are based on emotion and there can be high drama in jury trials. The Barrister may be able to play to this. Their ability as an actor is sometimes thought to justify film-star charges.

Some Solicitors also act as Barristers but otherwise there is a strict division of responsibilities and one ends up with two people to pay.

If you win your case then, commonly, you may be awarded no more than about a third of your actual costs in New Zealand. In some US states "exemplary damages" up to 3, or even 5 times, the actual costs may be, and often are, awarded.

It is not surprising that many people feel that the Justice system only serves the wealthy and they dare not seek justice through the courts as they will be unable to get a judgement before a wealthier opponent has ruined them. The costs make recourse to the Courts impractical for a large proportion of the population. Especially for those who are poorer than their opponent whether this is a bank, company, council, person or insurance company.

And even when you obtain a judgment, perhaps having escalated through several courts, you have the problem of enforcing the judgement. I will comment on this further below.

So what can be done about our system for resolving civil disputes?

Since Britain joined Europe many of their practices have been adopted in Britain and, more slowly, here. The European systems have much to commend them and it seems to be well established that they are much cheaper, more efficient and effective. They do not depend on "Case Law", also known as "Common Law", or the precedents that these establish. Thus, once Government has passed a law then a similar body to our Law Commission publishes a supplementary explanation of how the law should be administered and what the words are intended to mean. This guidance is then used by judges and others in the implementation of the law independently of what other judges may have decided. The guidance may change as time and cases go by and appeals are heard in higher Courts.

If we are to continue with the present system whereby the law is to be made certain only by the use of cases then, in all fairness, not only should the legal bills be paid but a fair return should be given to the parties involved for the time and stress that they sacrifice by acting as "guinea pigs"

Fortunately there is a well-tested alternative that we could use to improve our whole system for civil cases. This is Arbitration which is well established and is already specified in many commercial contracts.

The New Zealand Arbitration Act 1996 largely follows the United Nations model act. One of the key issues is that the parties can agree to appoint essentially any person they agree on as the arbitrator for any dispute that they may have. Alternatively they can agree on who is to make the appointment. Or they can each appoint an arbitrator and these two will choose a third. In a case involving a building dispute the parties may choose a builder or someone else other than a lawyer as the arbitrator. Again, they can represent themselves or have any person as an advocate, even a lawyer, to represent them.

The parties will have to define their dispute and this definition will determine what the arbitrator can, and must, rule on. When the arbitrator accepts the appointment their first task is to call the parties together and have them agree on many details of how the arbitration is to be carried out. Where they do not agree the provisions of the Act apply. The parties may choose to model the process on Court processes or they may choose to diverge significantly. For example the parties may agree to have the decision made on the documents supplied by each side without any hearings or witnesses or other personal testimony. Again they may decide that the arbitrator shall decide "according to considerations of general justice and fairness". In other words according to the arbitrator's ideas of what may be called "natural justice" rather than in terms of any statute or case law precedents. This concept is almost impossible to define and few attempts are made to use it in court proceedings. But it has great appeal for many people and comes close to what might be accomplished by mediation. The arbitrator can proceed in an inquisitorial style which is the heart of the European system and leads to its lower costs and efficiency." Inquisitorial" style means that the arbitrator takes control of the case, determines the production of information, examines the witnesses and so on.

The difference between mediation and arbitration is that the parties have to agree on an outcome for a mediation to be successfully concluded with a formal agreement regarding the dispute. A mediator does not make a decision but attempts to lead protagonists to agreement. An arbitrator however has much the same power as a High Court Judge and will make an award in the case that they are asked to decide. Having made an award it is enforceable in the same way as a Court judgement. It is also very difficult to appeal an arbitration award because the case has been

decided in the way that the parties agreed. The appeal has to show that the decision is wrong in law or that the arbitrator was biased.

The arbitration and any award are private and confidential unless the parties have agreed otherwise.

Arbitrators do not have to be qualified in any way or belong to any professional body. The members of the Arbitrators and Mediators Institute of New Zealand are predominantly lawyers with only a few engineers and others. I believe that in many cases involving disputes where there are professional or trade issues involved it may be preferable to have someone knowledgeable in the topic rather than in law. All the better if they are qualified as Arbitrators and Mediators. The arbitrator can call in legal advice instead of the normal opposite situation where the lawyer has to call in topic experts.

The whole framework of Arbitration seems to me to be much better suited to Civil Cases of all sorts. Especially perhaps where the disputants come from the same cultural background and can choose an arbitrator with an understanding of that background. Unfortunately arbitration is not well known and lawyers are not disposed to advise clients to go to arbitration. Or, if they do so advise then they will suggest going to another lawyer as the arbitrator and perhaps not even advise the client that they do not need to use a lawyer as an advocate.

I would like to see some idea of the use of arbitration for civil dispute resolution introduced in schools. Some exercises in choosing how to resolve disputes could be useful for general social development.

Many commercial contracts now provide for any disputes between the parties to be resolved by arbitration with provision for the parties to agree on one arbitrator or, failing agreement for the President of some professional society to appoint one. Or, if they do not agree for each to appoint one arbitrator and for them to choose a third one. The contract may even define the arbitrator to be appointed if they are available when required.

One of the most successful joint ventures I was involved with did just that. There were no disputes, perhaps because of this overview.

It is my view that the arbitration process is so superior to our present court system that it should be made compulsory for all civil cases. The only basis for appeal against an arbitration decision is that it is wrong in law. Such appeals should start at the Court of Appeal.

Enforcement would be by the normal court system as set out in the Arbitration Act. I will comment on this further below.

The effect of this change would, I believe be to greatly reduce the case load of the lower courts and would reverse the usual process of having to argue about the appropriate law and how to interpret both the law itself and the ensuing case law before properly considering the damages to be paid by one party to the other. If a law has been broken then, currently, the case may be referred to the appropriate authority which may choose not to pursue it. And even if the authority does pursue the case the focus will be on the penalties for the wrongdoer not the damages done to the plaintiff. The plaintiff may then, years later take a case for further damages if it is not time-barred.

The Pike River mine disaster (where 29 men were killed) resulted in the authority accepting a financial settlement (presumably paid by the insurers) and dropping the court procedures which may have resulted in criminal negligence penalties. So, with hindsight, it may have been better for there to have been an arbitration. In other words for the case to have been considered as a civil case from the beginning.

With arbitration however the focus is on the consequences for the complainant and, if laws have been broken, the threat of reporting to the authorities greatly enhances the chance of "restorative justice" in a timely fashion and with much lower costs. Again the load on the authorities may be greatly reduced. And the waste of ability locked up in the legal profession may be better utilised to increase the countries productivity. There would probably be a greater effect than that from the introduction of the Accident Compensation system which largely eliminated the need or ability of victims of accidents to sue.

### **Local Body Justice**

A great deal of the rule of law as it affects the ordinary citizen or company is in the administrative realm of local bodies. They have the responsibility of administering things like the Resource Management Act and various rules for the good of the community and to, hopefully, pre-empt disputes between members of the community which might otherwise end up in Court.

However there is huge variation in the local rules that are established and the competence of the local administrations. It is here that the accountability problem mentioned above is most

obvious. If people are afraid of being held accountable for making the wrong decision then they may feel that it is better to find a way of putting the problem onto someone else by demanding yet another report from some specialist or another or to keep asking questions and requiring more effort from the applicant instead of analysing the problem and suggesting acceptable solutions. There may be people within the Council whose title implies that they are entitled to make a decision but it is often safer for them to obfuscate and hope that the problem will go away. Delay is much costlier for the citizen than for the Council.

In some Councils there appears to have been a rejection of the need for things to actually be accomplished. Thus there may be a plethora of accountants, environment managers, planners, traffic managers, waterworks managers, sewerage managers and endless fragmentation but, incredibly, no City Engineer who will actually know how to design and build the required infrastructure. Instead various consultants are engaged from time to time and by different Council divisions.

"You can't fight City Hall" encapsulates the problem. This is writ large if the thing you need to fight is that there has been no decision at all. And, if you do fight, you run the risk of having more problems at some later time when you need another decision from the same people. A cynic once said "He is a perfect civil servant. He has a difficulty for every solution."

Another problem is that Councils almost never have to make any contribution to the complainant's costs of a court case where the Council loses but Council will be awarded costs against the complainant where Council win the case.

There is little incentive for Councils to ensure that their staff perform their duties correctly and punctually.

There was a time when it was possible to do a great deal to help yourself. New Zealand was known as a Do-it –yourself (DIY) country and proudly so. Those with little money but with energy and time could build their own homes. Their local councils exercised controls through official inspectors and broad guidelines which were interpreted in practical ways by the City Engineers Department. Most inspectors actually talked to would-be-builders, answered questions and educated the questioners. If necessary they could require remedial work to be done but they would say why they would not

approve a plan and suggest solutions. Master and apprentice systems of training were the norm.

As the world became more complex formal training became more necessary. Inevitably there were examinations and certificates were issued. It slowly became necessary to have these certificates before one was allowed to do almost anything. The practice of some enlightened employers to broaden the background of their employees by giving, say, the receptionist a couple of days driving a forklift invited prosecution – especially if there were to be some kind of accident.

The "great" age of neo-liberalism promised freedom of all sorts. Regulations were removed but "accountability" became the name of the game. People were to be freer to do as they wished but if it went wrong they were to be held accountable. The idea of a "fence at the top of the cliff" (an inspector cum educator) was replaced with the concept of an "ambulance at the bottom" with the thought that if someone could then be held accountable the example would lead to others avoiding the same mistake.

Quite quickly more and more rules were introduced so that one could determine what constituted a mistake if there were to be an inquiry. If someone had a license to drive a truck they still had to get a license to drive a bulldozer. Learning on the job was no longer enough. Work and safety legislation was enacted but, until the Pike River mine disaster, the idea of the traditional inspector was almost abandoned.

Accountability now meant that officials were reluctant to give advice or approve plans. Instead they required qualified and certified specialists to approve every detail so that there was someone else to blame. At the same time Government withdrew funding from the Standards authority but standards were still needed so that there could be a basis for apportioning blame as well as a means of instruction. They continued to be developed. Some are available on-line but many have to be purchased at, perhaps, \$150 each. And each one is likely to point to another one.

The poor DIY person needs to find out that there is a relevant standard and regulation. Do they make sense in the actual circumstances? And these still have to be interpreted. By whom? And will they commit their interpretation to writing? And be bound by it when the time comes?

Many long term regulations and local body plans have sections which have "stood the test of time". But times have changed. Regulations which made sense when all subdivisions were on the flat may be crazy when development is started on the surrounding hills. A requirement for a two lane road is fine on the flat but may mean that four times as much earth has to be moved compared to a one way road - with greater environmental damage and risk of slippage. Two one way roads may cost half as much and be much safer.

Will you be breaking any laws if you borrow your neighbour's chain-saw to cut down a tree and then cut it up for firewood? You may have done it many times but you don't have a license to use a chain-saw let alone a certification that you are capable of cutting down a tree without endangering yourself or anyone else. What if it's a Sunday? Can you extend the outflow pipes from your septic tank if you are not a certified drainlayer?

The legal and accounting professions have prospered under the current ideology. The constructive professions have fragmented. Where once one inspector would have advised on what needed to be done and then approved it when it had been done properly there may now be 4 or 5 different professionals and inspectors. The costs and time to get approval for doing something and then being certified as having actually done it are now often higher than actually getting something done physically. There are many people able to say "no" to almost anything but few who can, and are willing, to say "yes".

There are many issues which would be easily solved if staff in some Councils were as co-operative and constructive as staff in other Councils. For example, the administration of the Resource Management Act is the source of great frustration to many DIY and corporations alike because the administration of the Act is so diverse. This is natural as the geography of the country is also diverse but it is clear that some Councils act as if all their land area was flat when it is not.

There are laws which require uphill developments to retain downpours of rain and to allow downhill flow no greater than before the land is disturbed while at the same time to allow the normal runoff to remain at the previous level so as to maintain downhill streams. (This can be achieved by providing ponding areas uphill with small outlets to release the retained water slowly). But there are Councils which require storm water to go into a storm water drainage system

regardless of the terrain. The storm-water system may then need expensive upgrading of the downhill infrastructure as hill sections are developed and the runoff from them is increased.

Apart from such major engineering aberrations one problem appears to be that "accountability" is taken to mean only that the administrators are at risk if they say "yes" and some means needs to be found to balance this such that administrators are also at risk if they say "no" or delay without good cause.

I speculate that many of these problems followed from Councils being held liable for their inspection systems having failed to ensure that new materials were properly used with many "leaky homes". Councils appear to have become paranoid about this liability and have required engineers to carry liability insurance so that they, hopefully, do not have to. The cost of such professional indemnity for such potentialities is such that engineers do not want to work for Councils. Hence the fragmentation of professions and dispersal of the problem. One then finds a developer having to engage professionals of various sorts and Council doing the same thereby doubling these costs and loading it onto the developer in some way or another.

For the moment I note that "the Law" can only deal with these issues after the event. The costs and delays mean that the Poor are gravely disadvantaged and the costs of building are increased. With Council decisions about the Resource Management Act the case could be taken to the Environment Court and then on to higher Courts but, in general, the complainant will get no award at all of costs or damages even if they win the case and if they lose they will probably have large Council costs. Large organisations might be able to justify the costs of using the law to resolve such disputes – certainly they will have more access to the higher levels of Councils and Government in order to get the decisions they seek before resorting to the legal processes. The big get bigger and the DIY aspirant gets ulcers. The Poor get poorer.

### **Remand Prisoners**

I have little to say about criminal justice proceedings except to remark that people can be held "on remand" in prison while they await trial. In many cases this makes a mockery of the idea of justice because when tried the people are acquitted. Their lives and livelihood may have been destroyed but there appears to be little or no compensation.

If the remand prisoners are convicted the time spent on remand is deducted from the time they are sentenced to serve.

A side issue is that the number of prisoners held on remand is very large and keeps growing – apparently because of a shortage of judges. And the cost of 4 people in prison is about the same as the cost of appointing another judge. Perhaps if the cost of remand prisoners was paid by the justice department common-sense would prevail.

### **Enforcement.**

There is an astonishing gulf between the resources devoted by Governments to the enforcement of laws with respect to what are defined as crimes and those devoted to what are labelled as civil cases. As noted earlier with respect to the crime of "theft" of an item from a shop and the civil case where someone has the item invoiced and then does not pay the disparity of Government funded response is remarkable. The end effect is basically the same. In fact the shopkeeper may be put to more trouble and cost when they produce an invoice and then try to get paid than if the item had just been taken away.

There are many laws designed to safeguard the ordinary person but complaints to the appropriate authority do not result in any action unless there are multiple similar complaints, the amounts are large and/or there is sufficient "public interest". Some authorities, such as the Registrar of Companies are straightforward and might say that they will take the case if the complainant will pay for it. They do have an enforcement arm but it will possibly act only after someone else has paid to get a judgement.

A poor person cannot afford to even try to get justice for civil matters. Sometimes these are a matter of "legal theft" where trusts have been set up and the money is thus secure against creditors. Or a building contractor has got progress payments and goes bankrupt without paying staff or subcontractors. There have been cases where builders have done this several times leaving different owners and sub-contractors bereft.

### **Basic Incomes and Enforcement**

It is particularly hard on the Poor if they get a favourable decision from a Disputes tribunal or even from a Court. Compliance with the judgement is not automatic. The Government itself is unable to collect

speeding fines and the like. There is a requirement for a complainant to go back to the Court to get the Bailiffs to attempt to collect money or property. There are too few Bailiffs and it is up to the claimant to provide details of the offender and property or the equivalent seized and sold if necessary. If this identification is wrong the claimant may be liable for costs. The whole process of enforcement is ineffective.

If Basic Incomes were being paid it should be a simple matter for a judgement to include a charge against the Basic Income. It should probably be restricted to no more than half the BI.

Surely failing to comply with a Court order or making some arrangement agreed to by the Court should itself be a crime and dealt with by the police – especially if the guilty party has absconded or changed their name etc.

### **Ethics and Self-Regulation**

I have had the experience of being in a partnership where the highly respected Chairman was also the Chairman of a company set up by the partnership. In hindsight the documentation showed that he groomed the partners to believe that the company was of little value and must be sold. He refused to release the accounts of the company to the partners. With his wife he then bought the company for what I and several other partners believed to be some \$1million too little. We had a Queen's Counsel draft a statement of claim where he set out four "causes of action" – breaches of Fiduciary Duty, section 149 of the Companies Act 1993, Section 32 of the Partnership Act 1908 and the Fair Trading Act 1986. The Chairman was affronted and would not meet with me and the QC or release the accounts.

Each of the concerned partners would receive less than \$25,000 if there was a judgment for \$1m. It was not sensible for us to go to Court and the absence of the accounts would make it difficult to even initiate the action anyway.

Instead I and the QC went to the Commerce Commission. They directed us to the Serious Fraud Office who would not take the case because it was for less than \$2m. Nor would the Financial Markets Authority.

The Chairman was a Fellow of what is now the New Zealand Institute of Chartered Accountants. Their website sets out an excellent system for handling complaints about its members. It operates under a Statutory Act which gives it the right to determine who is allowed to practice as a Chartered Accountant and enjoy the

monopoly rights that come with this membership. Like many professional bodies it is then required to regulate the behaviour of its members so it has a comprehensive code of ethics.

I lodged a complaint with the NZICA citing breaches of their code of Ethics with respect to four clauses in the fundamental principles and 5 clauses regarding conflicts of interest including insider trading by the Chairman. I supplied documentation which, in my view, unequivocally showed that these breaches had occurred. It took almost a year for the Professional Conduct Committee to conclude that

*"Taking into account the commercial and historical nature of the dispute, the fact that the Member was not in this matter acting in his capacity as a Chartered Accountant and that he had acted appropriately declared his conflict of interest, the Committee considered that no breach to the Code of Ethics had been identified on the part of the member."*

The PCC made no comment on any of the clauses to which I had drawn their attention. It seemed that they had not even read the supplied documentation including the Chairman's own document, after the transaction had been completed, that he would then cease to deal with the accounts himself.

So he had been acting as a Chartered Accountant.

Naturally I appealed and the appeal went to an "independent" barrister who pointed out that the Ethics themselves stated that they were to be followed at all times regardless of whether the member was working as an Accountant or not. At great length he accepted and repeated the claims made by the defence. It also appeared that he did not read what had been supplied in the complaint and accepted without comment the apparent ethos that as long as one declares one's conflict of interest then one is perfectly entitled to exploit it as one wishes. What a travesty!

The original complaint fades into insignificance in the face of the actions of the Professional Conducts Committee of the NZICA. It has been said that all professional bodies "look after their own". And in this case the "own" was a fellow of the NZICA.

Since Roman times there has been the problem of "who will watch the watchers". I have found no way in which the NZICA and most similar professional bodies can be held to account without a hugely

expensive court action in which one would be confronting the might of a concerted defence by the professional body. This is beyond the reach of the Poor, and even the not-so-Poor.

The Financial Markets Authority has jurisdiction to review Auditors but not Accountants. The Ombudsman has jurisdiction to investigate the Institute of Professional Engineers but no other like body protected by Statute. So there are groups of people and organisations which are, effectively, beyond the law.

The Financial Markets Authority and the Serious Fraud Office should have their jurisdictions extended to cover all Professional bodies which operate under a Statute and should be funded so that their protection can be extended to all potential cases of any sort (whether for a company, corporation or private individuals) which have an apparent monetary value above that set for the Disputes Tribunal.

I have put this view to the appropriate Minister who asked the Ministry of Business and employment to investigate. They did so and reported that the process was sound and no action was necessary. The Minister, unsurprisingly, accepted this. The process is indeed sound. My complaint was that implementation of the process was incompetent and there is no redress available.

### **Oppressive Contracts & Terms of Trade**

A major problem for democratic governments is the need to be re-elected. People generally make their decisions based on emotion rather than logic and on immediate issues rather than for the future. This then tends to force governments into the same pattern both at the political and departmental level. So it is that departments are usually short of resources and so deal with problems only when they must. And they end up being merely reactive when the problems occur rather than preventing them. The problems of tomorrow are not dealt with today. This is particularly unfortunate for the poor because there is little incentive for departments to deal with issues that may damage those who are less well-off. Much of it is a matter of larger organisations or better-off people being able to coerce those less well-off than themselves who do not know that there are laws which are intended to defend them.

So it is that many organisations, such as banks and many companies, have contracts and terms of trade which, in my view, deprive their customers of reasonable rights. Often these documents

are in conflict with other laws - such as the Consumer Guarantees Act or the Fair Trading Act. The latter bans terms which create a significant imbalance of rights or obligations between companies and customers. It was this Act which led the Commerce Commission, in 2017, to respond to many complaints about gymnasium contracts to audit 10 gymnasium companies and persuade them to change their contracts.

This unusual action by the Commerce Commission deserves to be widely emulated so that ordinary people are protected from unscrupulous traders or organisations. The "fine print" in many contracts or order forms is often not read or not understood by the customer and then they can be faced with conditions which they do not even realise are unlawful. And they do not have the means or knowledge to resist.

There are many instances where the document has been drawn up by a lawyer to protect their client and there has been no representative of a customer interest involved. Such things as requiring prepayment, as in on-line purchases, with no right or very limited rights, for return of faulty goods, reservation of the right to change the specifications without notice or compensation, specifically providing no guarantee of performance or quality and the like.

There is a need for audits of the sort carried out by the Commerce Commission so as to be pro-active in defending consumers of goods and services. This does not necessarily require much, if any change, in our laws. But it does require a change in the interpretation of "the public interest". Government departments should interpret this term as meaning that any breach of the law should be investigated following even one report of a transgression. At present the departments and authorities require reports of a number of breaches involving significant sums of money and affecting many people before they will act. Being "a little bit pregnant" should be a cause for concern.

Above all perhaps is the need for the documents which customers are required to sign by banks and insurance companies to be audited for fairness. I believe that all New Zealand banks in both their debenture deeds and mortgage documents require customers to agree to give the banks almost absolute power to appoint receivers to recover their money. Unlike the US "chapter 11" where companies or people can seek the protection of the courts to attempt to trade out of

their difficulties our banks can act at any time of their choosing, possibly through no fault of the customer. They do not have to get court approval to "put in the receivers".

This incredible power conferred by such documents has resulted in many "mortgagee sales" which are widely regarded as an opportunity for a buyer to obtain a bargain. People may lose all the equity they have in a property without any recourse and possibly through no fault of their own – such as losing their job because of a financial crash – or a pandemic. The suppliers to businesses may lose the amounts owing to them and have no recourse. The poor are the ones who will suffer the most. The justice system simply fails.

When the Bank of New Zealand, which was then owned by Government, got into difficulties in 1989 it put a number of viable companies (including my company, Progeni) into receivership in the expectation that they could be liquidated and quickly provide the bank with much needed money. There needs to be more protection for bank customers to prevent this. It may be better for a bank, however large, to fail and have its ownership taken and refinanced by Government. It is the bank's shareholders who should lose their investment rather than the bank's customers and its depositors. If a bank is "too big to fail" it should not be allowed to save itself by failing its customers, many of whom will be poor beforehand and destitute afterwards.

## **PART 2**

### **Chapter 10 – Bigger Problems**

Our focus so far has been on the systems that are in place in New Zealand and how the problems of the Poor could be alleviated by having Basic Incomes for all - different for different ages. But the global problems and changes present different levels of threat to all people - not only to the Poor. And the Poor will be the ones who suffer most from these problems. Including the environmental problems which are rushing at us.

It may be that a way will be found to ameliorate the effects of what now appears to be an inevitable disastrous rise in global

temperatures. One "far-out" idea which I have not seen raised is to harness the fear of a "nuclear winter" arising from a nuclear exchange causing sufficient dust to be sent into the stratosphere to plunge us into a severe global drop in temperature which would last for some years. So it is conceivable that by having controlled nuclear explosions in places like outback Australia and Siberia we could hold back the global effect of increasing carbon dioxide etc in the atmosphere until we perfect the technologies for sustainable futures.

But even if we did achieve this goal for present levels of population there is a problem which, strangely, has disappeared from media concern. This is simply that population growth now appears to be a forbidden subject of conversation. It is cause for relief that the rate of rise has diminished but we are still looking at over half a billion people coming into the world in the next 10 years. Every conceivable success I can imagine will be swept away in this tsunami of people so that huge numbers of them will continue to be poor. We already have shortages of such simple things as sand for use in making concrete buildings, roads, bridges and the like. Clean water and air are becoming scarcer. It is a finite planet. A huge amount of what we have inherited needs to be rebuilt or upgraded. And if we cannot find ways to share what there is of the necessities of life we have to expect increasing conflicts for them. So let us do some more thinking.

### **Some Useful "Fringe" Ideas.**

When my wife, Myra, was co-director of the NZ Commission for the Future in the early 1980s many of the current world problems (such as climate change, population growth, immigration, political instability, resource depletion, technological change - especially in the communications area) were foreseen and different groups were trying to devise alternative scenarios to mitigate the problems. It was clear that some of these ideas would eventually become mainstream and that the solutions for the future were likely to be found in the ideas of the time. The National Government of the day did not want publicity for any ideas that conflicted with its own and abolished the Commission in 1981.

Alternative "fringe" ideas about financial structures and the like were common. Chief amongst these was "Social Credit" when NZ had two members of Parliament from the Social Credit party. Social Credit was then overwhelmed by the neo-liberal ideology but some of the ideas had a long history and they persisted.

A fundamental problem of the established banking system is that when loans are issued and debt is created both the debt and interest have to be repaid. So another debt must be created somewhere. The debts mount. The total of all the debts in all the accounts gets larger. When a bank gets to the limit of its Bank Ratio it cannot create more debt unless it is able to borrow from another bank or elsewhere - possibly by issuing shares or bonds. But these remove money from elsewhere

This all gets a little hard to think about now that everything is digital but in "the good old days" when bank notes were the legal tender of the land they were issued by the Reserve Bank. In other words the Reserve Bank printed money and sold it to the trading banks or else created a debt account for the banks concerned. So Government "got money for nothing" as the banks had to get printed money from the people who created genuine value for it and this could be value for Government in terms of roads, schools etc. The "new money" circulated. There was always a delicate balance. If Government printed too much money for the available goods and services there would be inflation. If it did not print enough the reverse would happen. But if the economy kept growing there would be more activity to finance and Government could keep printing a certain amount of money which it would not have to collect in taxes and which would maintain stable prices. Government therefore had a means of continuing to finance its work without raising taxes.

### **The World of Finance**

The Great Financial Crash of 2008 has caused a great deal of concern around the world. Such crashes seem to occur with monotonous regularity - about every 20 years. New branches of Economics are challenging old orthodoxy in the hope that greater understanding will allow the authorities to achieve a greater level of stability.

Some of the difficulties arise from the very nature of banking as it is currently practised. In ages past Gold Merchants found that when they sold gold their clients frequently asked them to store the gold securely for them and got a receipt for this deposit. These receipts could then be used as "money". The Merchants quickly realised that the gold was almost never uplifted so they could issue more receipts to borrowers who would promise to repay the money plus interest. In the meantime the borrower could obtain goods and services by

handing over the money. Only sometimes would someone return with their money and demand that the gold it represented be produced. Only in exceptional circumstances would it be discovered that the Merchant did not have enough gold to pay all the deposit receipts they had issued. The Merchant (Bank) would be "broken" and the holders of the receipts would possibly be ruined as the money which had been issued by that bank would be worthless.

Eventually laws were passed limiting the amount of money that a bank could issue to some multiple of what resources it really has. We have long since ceased to require gold, coins or notes issued by a central bank to be the only resource used for this purpose. This multiple is known as the "Bank Ratio" and is set by the authorities from time to time. It is commonly something like 8.

This is a very peculiar situation. If an ordinary company carries on trading when it would be unable to pay its bills because it does not have enough cash or other resources then the directors are guilty of "trading while insolvent". They can be sued and have criminal charges against them. Yet Banks can be deliberately insolvent maybe 8 times over. It is said that they have "issued debt". It all becomes a very complex business.

One of the problems is how to measure what resources the banks actually have before applying their Bank Ratio. For example if they lend money on a mortgage then they no longer have to have any actual resources to back it up but simply make accounting entries so that the borrower can then redeem cheques or make on-line transactions against the accounting entry. But a mortgage is backed by the security of some property so either the mortgage plus interest will be repaid or be repaid in instalments or the property can be sold. The banks do not normally grant mortgages for the full value of the property so that they can be reasonably sure of getting their money back. Therefore all mortgages, discounted by an approved risk factor, are considered to be a resource of the bank for purposes of the Bank Ratio. Loans to businesses have a greater risk factor applied as it is recognized that they have a greater risk of default by the borrower. The bank is considered to have "created debt" by making its accounting entries beyond the value of its resources. One consequence of this dichotomy is that business loans are given at a higher rate of interest than house mortgages.

The 2008 crash is attributed to a practice in the USA of incentivising bank staff to "sell" mortgages. This they did to get their bonuses. They ceased to apply the established practice of lending less than properties were worth and ensuring that the clients had initial deposits and income to safeguard the banks need to be repaid. They granted mortgages to people who had little or no deposit or had insufficient income to keep up the payments. The practice became common, staff bonuses soared and mortgage packages (agglomerations of mortgages - known as "derivatives") were traded between banks as if they were money with little or no scrutiny of the risk-worthiness of the mortgagees. Because they were formal mortgages it was apparently legal to consider them as part of the bank's resources. All mortgages could be considered to be part of the resource base with only the same risk. The construction and banking businesses boomed. Bank executives became indecently wealthy.

Then many people were unable to make their mortgage payments - the banks foreclosed, people lost what equity they had in their property and the banks were unable to sell them for the amount of the mortgages. Their resource backing fell and they exceeded their permitted Bank Ratios. They could not "issue debt" i.e. could not grant credit to customers and had demands to repay deposits that had been made with them and which they could not meet even if they sold all of their saleable resources.

The problem was greatest in the USA. When one of the largest "Investment Banks" - Lehman Brothers - went into liquidation there was international panic. Banks would not lend to one another let alone ordinary people.

Trust disappeared. Companies failed. Banks would not lend to one another let alone businesses that depended on them. Depositors wanted their money back and some banks could not meet their demands. Poor people and others, but especially poor people, lost what they had either in bank deposits or their equity in property. Jobs disappeared. Pension funds were hard hit. Share prices tumbled.

This whole "sub-prime" disaster spread rapidly with consequences around the world. Of course the banking system could not be allowed to fail and the banks were bailed out by Governments.

The bank shareholders and executives did not suffer. But huge numbers of Poor, or not so poor, people lost their homes, their deposits, their jobs and their futures. Countries, particularly those

such as Greece, Iceland, Italy and Spain are still battling with the consequences and struggling to repay the national debts that have resulted. Poor, and not so poor, people have borne the price - directly in terms of lost savings, jobs and other direct hardships - but also through their higher taxes and cuts to benefit payments.

New Zealand & Australia have been fortunate to have more modest and conservative bankers but the consequences have been severe and effects continue in the housing market and elsewhere.

The partial solution, which was practised most effectively in the USA and, arguably, least effectively in the EU was "Quantitative Easing". This was essentially the "printing of money" by Governments so that the commercial world could continue to function even if gravely injured. In the USA a good deal of help was also given to the impoverished individuals but very little in the EU which practiced disastrous austerity for the many.

In some cases Governments bought "Bonds" and shares from Banks and companies. The bonds, at the time, were worthless but they might be repaid at the due date if the organisation survived. Such defaults did not cost the taxpayer anything directly since they had been bought with the "valueless" printed money. The same was true of shares which might become valuable. In this case the taxpayers would benefit as the banks would then have "bought the money" from Government

The question now being asked by many economists and others is why the Quantitative Easing approach cannot be adapted so that it is Governments which issue debt rather than banks. The banks would have to buy money from Government. There is much to debate and many groups, such as Positive Money in the UK, which are gaining attention and advocates with MPs and economists. There is "New Economics" emerging as a discipline.

The idea has huge implications - including the potential to provide the money to pay for BIs as well as other things. There is an excellent paper (see ref 9) describing the idea and suggesting that it be applied, in part, to financing BIs in the USA. The beginning says:

"Calls for a Basic Income (BI) have been increasing, most recently as part of the "Green New Deal" introduced by Rep. Alexandria Ocasio-Cortez, D-N.Y., and supported in the last month by at least 40 members of Congress. Critics say payment to all adults with no strings attached, similar to Social Security as in the Green New Deal

asks too much of the rich and upper-middle-class taxpayers who will have to pay for it, but taxing the rich is not what the resolution proposes. It says funding would primarily come from the federal government, "using a combination of the Federal Reserve, a new public bank or system of regional and specialized public banks," among other vehicles.

The Federal Reserve alone could do the job. It could buy "Green" federal bonds with money created on its balance sheet, just as the Fed funded the purchase of \$3.7 trillion in bonds in its "quantitative easing" program to save the banks. The Treasury could also do it. The Treasury has the constitutional power to issue coins in any denomination. Even trillion dollar coins.

What prevents legislators from pursuing those options is the fear of hyperinflation from excess "demand" (spendable income) driving prices up. But in fact the consumer economy is chronically short of spendable income, due to the way money enters the consumer economy. We actually need regular injections of money to avoid a "balance sheet recession" and allow for growth, and a BI is one way to do it."

Clearly this is a huge idea, and it is gaining currency, but it will obviously be opposed by powerful financial players. Transition to this idea will not be easy but there could be a reasonable transition route.

In New Zealand our Government once owned the Bank of New Zealand which had 45% of the NZ banking business until just after the 1987 share crash. The BNZ was presumably creating around 45% of the debt that was being created.

Government had put a man who had described himself as a "business pirate" into the position of Chairman. He had been tremendously successful both for himself and many shareholders. Suddenly every branch manager seemed to try to emulate their Chairman's success in their branch. They advanced funds on the security of shares - sometimes to almost the full current value of the shares in the expectation that the shares price would rise. It was very like the Global Financial Crash caused by irresponsible lending on houses. When the share prices crashed the owners of the shares gladly surrendered them to the banks and absorbed the small loss of what equity that they actually had in the shares. The BNZ had to be rescued by the Government which quickly sold it to one of the Australian banks.

But there would seem no reason why Government should not either start a new bank or inject capital into Kiwibank which is itself owned by state owned enterprises. It could then move into all fields of banking including the Government's banking needs and build up Government's share of the profit from debt creation. Otherwise the debt creation could be by the Reserve Bank with a transition by reducing the Bank Ratio over time until it was set at 1.

I like the idea of Positive Money for its own sake and have wanted to explore it on its own but because of the weight of opposition that will be brought to bear by the world-wide banking fraternity I have thought that BIs should be set up independently in the first instance. However the confluence of the two ideas is exciting. Basic Incomes provide an opportunity to start down the track of reclaiming for the country at least some of the power of the Government to issue debt and to profit from it. Also to provide many benefits to its people.

### **The Threat of Technology**

As with Climate Change there are some people who glibly choose to ignore the problems that to others are increasingly threatening. The deniers choose to believe that because the world has adjusted to technology by removing jobs in the past but other jobs have been created then there is no need to consider the upheavals that result from new technologies. Or to consider the way that social power structures change dramatically and the suffering of those who are the losers from the use of the new technologies. Just as in the industrial revolution those who can afford to make use of the new technologies can profit enormously but those who lose their livelihoods can be made destitute.

The pace of change is unprecedented and - like climate change – appears obvious to many observers but is decried by others.

The effects are all around us. Note the sudden reduction in supermarket checkout operators, the reduced no of "posties", the increased size of trucks and ships, the reduction in the numbers of typists, bank-tellers and telephone operators, the potential for loss of driving jobs with self-drive vehicles, on-line purchasing reducing retail staff and the like. Even "secure" Government jobs can be affected as with a reduction of Inland Revenue Department's staff by about 1,000 persons.

On the other hand there is the increase in courier service jobs, demand for medical services because more can be done, security

jobs of various sorts, upskilling to deal with more complex equipment, care services as population ages and various jobs which were never thought of before the technology changes.

The whole distribution and retail systems are being upended by the growth of corporations with the capital and knowledge to use the new technologies. Amazon with its automation of on-line purchasing, warehousing and delivery is one example. Its announcement of "Amazon stores" is likely to revolutionize retailing leading to massive job losses. The concept here is the perfect complement to on-line selling. People will be able to visit one of the stores to physically handle a product and to take it away with no personal contact needed with a shop assistant. Facial recognition will identify the person and charge their account. The minor failures of facial recognition will probably require supplementation by voice recognition for major items. Alternatively the product could be delivered to your known address.

It may indeed be the case that the new jobs will match or exceed the jobs destroyed but the transition will be personally disastrous for many who may have to transfer to another locality in order to get one of the new jobs. And they may have to pay for their own retraining. Being unable to read and write always restricted a person's job opportunities but being computer illiterate or unable to adapt will make the problems much worse.

This will all be exacerbated by the ferment in the changes of ownership, globalization, opening and closing of companies and subsidiaries.

The provision of BIs and on-the-job training are needed to provide some security for those who will be affected by new technologies. Otherwise the position of the poor, working-poor and those who suddenly lose their middle or high-level jobs must lead to social upheaval and suffering.

It is very hard to see what technologies will themselves become "pandemics" it is even harder to see how they will affect different industries and countries. There are many technologies existing, as well as others yet to be developed which might become ubiquitous very quickly. These have the potential to change power balances and practices in communities and globally.

The speed at which these changes take place is likely to be magnified by the effect of the Covid 19 disaster as countries are

forced to pick themselves up by becoming more self-reliant with local production instead of waiting and hoping that the old supply chains will be re-established.

The threats to our primary industries from climate change and changes in diets to rely more on vegetable than on animal products will gather pace. We will need to accommodate to these changes by seeing our role more as a supplier of food rather than of particular foods such as dairy products. Soy milk, Almond milk, Oat milk and Coconut milk are on our supermarket shelves. Meat-like products are appearing. So far the threats do not appear great but there will come a time when "if we cant beat them we must join them" in exactly the same way that oil companies are building positions in sustainable energy alternatives.

Consider just 3D printing and teach-once robots. 3D printers are "fed" different materials which under control of a program are then made into complete objects of all sorts. These can be spheres with a cavity in the middle instead of two halves being made and then joined together. Through to things like houses or spare parts for cars. Or the teach-once robots which only have to be shown once how to do something and will then go on to faultlessly do the same thing.

Such technologies may change the approach to mass production and the role of global companies. Instead of huge factories producing a limited range of products and varieties requiring production lines with many workers each doing one task and producing a large number of the same things which are then warehoused, packed when ordered and shipped around the world it becomes possible to think of boutique factories with a supply of raw materials located close to the markets for the products. The 3D and "qualified" robots then have the programs to produce close to the customers a whole variety of products of different colours and sizes etc.

Fisher & Paykel in New Zealand showed the way many years ago. They designed a large range of whiteware products, refrigerators, washing machines, ovens etc with a limited range of panel sizes for the whole range. These were all assembled on the same production line where the necessary equipment could sequentially make 1 refrigerator, 2 stoves, 1 washing machine followed by 2 ovens where these had been ordered by a retail customer. Then the sequence ordered by the next customer. So each order came off the assembly line to be packed and ready to go. Items did not have to be produced

in numbers, possibly on different assembly lines, stored, recovered, assembled and packed with other products ordered by a customer. It was very effective in improving customer service, reducing inventory and warehouse space etc. The company is now based in Mexico serving the American and other markets.

The Amazon off-shoot, Createspace, for some years has provided a "print-on-demand" service where they do not do a "print-run" of hundreds or thousands but print one copy at a time as ordered. The whole effort of storing and recovering from storage is eliminated.

Each industry needs its own business case but there is certainly the potential for 3D printers to be located close to the customers. They are relatively cheap and so are the robots. There is a great potential for such machines to be owned in New Zealand by an overseas company and to satisfy the local demand locally. Equally a New Zealand company might locate a machine in Germany or the US or elsewhere and replicate with more machines in new locations as demand grows.

And for machines to be owned locally and used by a number of local start-ups. The idea of a general tariff on imports which I will discuss below would assist this development.

There are further possibilities. There may be a "Prosumer" (or more prosaically a Do It Yourself) economy develop once again. This would be similar to the old practice of the male building things and women in the home producing many of the clothes and other things required by the family. Here essentially the same garment would be produced by the housewife in different sizes, colours and materials. The flexibility available with the new technologies may result in many more things required by people being produced by them or in combination with a local owner of the technology.

## **Chapter 11. Managing Money & Commerce**

At first sight this somewhat esoteric chapter may seem out of place. But my father lost his farm in the depression of 1929 and in 1989 I lost the software business I had built over 21 years as a result of the Bank of New Zealand's failure following the 1987 share market

crash. I also witnessed two earlier crashes and then the 2008 Great Financial crash so I am aware of the cost and deprivation for the poor, and not so poor, due to failures in the control of our financial systems. So this chapter is concerned with some of the sorts of things that one hopes only occur in nightmares.

So far we have been concerned about problems for the Poor and how they might be alleviated by Government decisions. But New Zealand as a whole lives in an environment both physical and financial which are beyond the control of the Government. The physical threats are many – global warming, pollution, resource depletion, earthquakes, eruptions, major wars, water shortages, pandemics and, depressingly, on and on. Most of these issues are now being widely discussed and were subject to warnings from the Commission for the Future before it was disbanded in 1981. One major omission from these current discussions is the need for curbing population growth which exacerbates all problems. And all of them are greater threats to the Poor than to the Rich.

As a country we have to consider how we can best attempt to control the effect of these threats and how to work with others who share this planet with us. This is a question of bewildering complexity fraught with political ambitions, ideological and religious differences, unpredictable decisions, changing power structures and alliances. We can learn a great deal from history, particularly if we delve into the history of the "losers" – the less written history.

It may be seen that there are two extremes. The idea of a completely "free market" approach where all things are unregulated. Then competition holds sway and the winner of one encounter is better placed for the next one. Hence the growth in inequality – not just locally but on an international scale so that global corporations can challenge and even change governments. In the competitive sporting field it is universally accepted that there must be referees in order to play the game peacefully. But at the other extreme where all things are tightly regulated freedom, innovation and effectiveness must suffer. So do the Poor in either case.

The question, of course, has to be how to define the components of the system which are to have referees. It may be considered that multi-national corporations could define the components and become the referees. However, from the nature of multi-nationals we would have to expect that they would only optimise for their shareholders,

management and, perhaps, their staff. All those people who were not "owned" by the corporations would be left out of consideration unless they became sufficiently organized to pose a threat to the corporation interests.

I conclude that only nations have a prospect of achieving "the greatest good for the greatest number". And that our goal for nations should be what has been labelled "self-reliance" rather than "self-sufficiency" at one extreme or global integration at the other.

This was really put very well by J M Keynes writing:

*"I sympathise therefore with those who would minimize, rather than with those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel - these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national."*

### **The Nation State**

The role of the nation state has to be to work properly within its boundaries, to exercise the controls it thinks proper within those boundaries (I am a fan for competition provided it is on a level playing field) and to interact with the rest of the world in agreed ways. The ideal in so many respects is to minimize rather than to maximize these interactions.

This seems to me to be a fundamental requirement to avoid global economic and environmental disaster. We need to have nations accept the responsibilities of nationhood and to control their own destiny rather than hope for some invisible hand from the global economy to solve the problems. Only in this way, nation by nation, can we expect to overcome the world's problems. There must be a "first monkey" before we can get to the "hundredth monkey". (It is said that in a study of monkeys on a Japanese island that they were given potatoes to eat. One monkey washed the dirt from its potato before eating it. Gradually other monkeys came to do the same thing. Eventually 100 monkeys were washing their potato. Then, suddenly, all monkeys were washing their potatoes. The hundredth monkey is therefore taken as defining the turning point in the change of a custom.) So, hopefully, if one nation can solve a global problem at a local level it will be followed by others. Whereas if we wait to get unanimity before doing anything we may wait forever.

I conclude that we need to retain nation states – with changes certainly – but still recognizably nation states. How then can we do this? What is necessary to contain the forces of change? How can we extract the best from these forces without surrendering to them?

The "Free Trade Areas" being established by groups of governments seem to me to be heading in the right direction. The agreements impose trading rules on their members which allow great freedom within nations but having defined interfaces between them.

One of the Free Trade objectives is to minimize tariff barriers, government subsidies, tax advantages and the like so that there is a "level playing field" for companies in different countries to compete with each other. This is becoming ever more difficult as is shown by the use of tax havens, paying tax in one country to avoid higher taxes in another, moving production to countries with a lower wage rate, less social benefits, little environmental protection and the like. Tariff and other barriers are often imposed to target particular good or suppliers. Calling a product by a different name or splitting it into separate parts for final assembly in another country can often circumvent tariffs.

Tariffs in one country invite retaliatory tariffs in other countries. Similarly with import controls. The latter can be particularly damaging for start-ups since import quotas are usually granted based on past levels of imports and if a new start-up requires a new import it has yet another barrier to surmount.

Tariffs have often been used in the past to protect some local manufacturers or to assist in maintaining an exchange rate. One can have some sympathy with that. But the use of tariffs in the way that the United States has done recently to target particular countries and to choose particular segments of that country so as to undermine its government is reprehensible and can only lead to trade-wars which, like shooting wars, cause loss to all participants – chiefly again to the Poor.

However developments in technology such as 3DPrinters can, with little investment, permit a lot of production within a country so as to avoid the tariff wall. And it may be such developments that offer the best chance of upskilling the local workforce, reducing unemployment and improving well-being in various countries.

I would like to see some research done on the potential to abandon all specific tariffs on products or classes of product but to,

instead, have a general tariff imposed on all imports based on the level of unemployment in each country. By having a general tariff across all imports there is a huge simplification of regulation and administration compared to varying the tariff by product and origin. And it could become another variable for controlling the exchange rate.

**The tariff level might be fixed at the percentage of unemployment or in accordance with some formula based on this figure.** Hopefully this would lead to local companies being able to compete with the global giants and for the global giants to locate production within each country where they have a potential market. The tariff monies collected could then be used in development within the country thereby reducing unemployment and upskilling many people. Such a tariff would assist start-ups as they would not have to show that their product fitted into any existing classification.

My concern is to maintain a stable and manageable world where the interactions are normal commercial and social interactions rather than physical or financial interference of one sort or another. Nations must obviously provide protection against aggressive interference by outside forces but they're much better placed to do this if they are in a healthy state in other respects. Indeed, self-reliance is a great strength in time of war and, possibly, in the avoidance of war. For example, self-reliant nations are less vulnerable to the imposition of sanctions in any endeavour to change the regime by inciting the populace through disrupting the economy. A glaring example of the use of this technique is currently before us with Trump's 'war' on Iran. The sudden imposition or change of tariffs or sanctions is similarly disruptive.

All nations have tight controls over the flow of people – while tourism and travel may be encouraged the establishment of permanent residency and work permits is fraught with regulations and restrictions. There are huge delays, costs and taxes. There are also customs barriers, rules, taxes and regulations for the flow of goods.

The experience of attempting to control the flow of money has been very varied. In the great depression of the 1930s New Zealand did not have its own reserve bank and could not create money. When the overseas banks said that the government had run out of money then the government could not pay its servants and teachers etc. The reaction was to have our own currency as the sole legal tender and to

tightly control all external money flows with import licensing of goods and a fixed exchange rate.

The complications and rigidities that arose from this regime ultimately led to an abandonment of the controls both in terms of the goods and the flow of money. The New Zealand Reserve Bank is now able to indirectly affect these flows by manipulation of the interest rate and other variables of the banking system. The exchange rate "floats". But its value depends, in part, on the current interest rates set by the Reserve Bank.

The exchange rate also depends on a host of other factors - the state of the rest of the world, our economic outlook, the weather, elections etc.

Even quite small changes in the exchange rate can have a large effect resulting in the opening or closing of industries, unemployment, relocation and so on. Volatility in the rate leads to uncertainty, indecision and paralysis.

Money is meant to be a medium of exchange but those who control the medium can also be seen in many cases as like a cancer of the human bodies exchange system – as leukaemia feeds on blood so the controllers of money flows feed on the process and on the exchange rate.

Currencies with a small base are subject to manipulation by organisations controlling large amounts of money but, even without manipulation, those with foreknowledge or foresight are capable of benefiting substantially from exchange rate variations. Nations with their own currency usually require it to be the only legal tender within their boundaries but huge amounts of international trade are carried out in the major currencies such as the US dollar or Swiss francs. The wisdom of the common man has also led to these major currencies being used for many transactions within countries even where these are strictly illegal. So US dollars are used in Russia, China, Indonesia and many other countries. And they are the predominant currency used for international business.

One has to wonder if it would not be best for small countries to abandon their own currency and simply use a major currency. The creation of the Euro lent support to this view. The European banks lost substantial income from the loss of the exchange business within Europe. Real commercial efficiency will have improved without this

leukaemia–like effect sucking the profit from every cross border transaction.

But, on the downside, national governments lose much of their ability to control their affairs if they abandon the ability to create their own money. With expanding trade and economies more money is required to service the exchanges, assuming that the velocity of circulation and all other factors remain unchanged. More money can be created by a nation without causing inflation if it is able to control the supply but if an alternative currency can be used then this may be preferred and the variation in exchange rates with the foreign currency will cause instability.

If a national government is to give up its own currency then it must have some say in the operation of the reserve bank that controls the adopted currency or it not only loses sovereignty but loses a potential source of financial benefit from the ability to create money and becomes dependent on the decisions of others regarding inflation and much else.

If another country's currency were to be adopted there is, however, no reason why a nation should not control interest rates and other indirect variables which partly determine the financial flows into and out of its boundaries.

A half-way house is the transition arrangement for the Euro whereby both local and major currencies are allowed to be legal tender. It has the appearance of a camel which is said to be a "horse designed by a committee".

With the experience of Malaysia, Thailand, Korea, Russia, Brazil, Argentina, Greece, Italy and others it is clear that the exchange rate is as much a symptom as a cause. If there is a loss of confidence in a nation then such money as can be withdrawn quickly is withdrawn. The collapse of the exchange rate, or the fear of such a collapse, is then a further reason for withdrawal. If the exchange rate falls a little and people project this forwards and act accordingly to get their money out while it is still worth something then the exchange rate will fall further. In systems theory this is called "positive feedback", where the response to a change is to reinforce the change. Positive feedback is the classical way to create instability in a system.

If a major currency (such as the Euro or the US dollar) was in widespread use alongside a local currency (or, at the extreme, if there was only one major currency in the world) then a local currency

exchange rate collapse as a cause of withdrawal would decline since sales and purchases could continue in the major currency, possibly with little change in their value in that currency. The other causes would remain but might not be nearly so severe. Certainly one would expect reactions to occur more slowly and in a more measured way. The nation's government would have to negotiate with the money suppliers from time to time but this would be a more visible and controlled process. At least the Government would know what was happening instead of leaving things to the discretion of individual organizations which are likely to act like a mob of sheep and all rush unpredictably in an unforeseen direction.

Unconsciously, New Zealand does have a mixture of currencies in use. The NZ Dollar is the only legal currency internally but its exports are largely denominated in US dollars and, as one of the world's largest per capita exporters it has some measure of stabilization as a result. If the exchange rate drops local producers are advantaged because the local cost of their importing competitors rises and the demand for overseas exchange to purchase products decreases. Exporters may be advantaged or disadvantaged depending on how much import content there is in their exports. This is what is known as "negative feedback" such that there is a mechanism to counter any change so as to reduce its impact.

From a system control viewpoint it is obvious that nations should have mechanisms to control cross border financial flows in order to achieve stability and manageability. But the flow of money across a nation's borders is not the only issue determining economic activity within it. Decisions taken outside a nation can have a dramatic effect within the nation. Businesses can be forced into failure, many jobs can be lost without warning.

### **External Influences**

As an example, in the wake of the 1988 financial collapse the Bank of New Zealand in 1989 visited its own problems on my business and many others. This trading bank was owned by the New Zealand Government and was ultimately bailed out of its problems by the Government but not before it had destroyed many businesses. The problems were largely of the banks own making and the 1987 share market crash. But another factor was the reaction of the international banking community to the 1987 share market crash. This is important

in understanding the forces that come into play quite independently of any government decision-making power and which must be taken into account in the making of those decisions.

What happened was that the Bank of International Settlements, with the spectre of third world debt and the experience of the 1987 share market crash, in 1988 decreed that all participating banks must raise their capital backing from 4% of their "risk-adjusted resources" to 8% by the end of 1992.

Banks had then to either halve their loans or double their capital in that time. The effect was to tighten worldwide credit to increase interest rates and to produce recessionary conditions around the globe. The issue received no coverage in the popular press and politicians continued to make prognostications in apparent ignorance of the facts.

An article in Euromoney for July 1988 claimed that the Americans agreed to the decision because they thought that it would cripple Japanese banks but that in fact the American banks were disadvantaged because they were inhibited in their merger activity while the Japanese Ministry of Finance assisted the Japanese banks with their adjustments.

There were many effects. Because the risk adjusted resources were the critical measure one way of modifying the impact of the decision was to focus on this measure. In effect a loan to a business was considered to be only 50% when "risk-adjusted". On the other hand a property loan was considered to be a resource at its full value. So if a bank had previously only lent to businesses it could avoid making any change in its actual capital base by withdrawing entirely from business loans and making only property loans in order to "double" its resource base.

In New Zealand the National Bank (owned by the English bank Lloyds) bought a large real estate company so that the house mortgages could be channelled to them. Another bank sought to merge with a large insurance company which held most of its assets in house mortgages. Banks which had previously had no interest in the housing market suddenly were vying for the business. On the other hand commercial loans were at penal rates of interest and hard to come by or withdrawn without warning. Many businesses failed.

At one point the Bank of New Zealand apparently had a resource ratio of less than 1.5%. The full story has never been told. It would

appear that there were so many high level fingers in the messy business of the banks demise that there has never been an enquiry to learn the lessons, find any culprits, change the rules or find out who got the money.

The Bank of International Settlements, like most such bodies, is not under the control of any government. It is a creature of its members. Yet its decisions can have a dramatic impact on all nations.

In the example given above we see that Government attempts at controlling the money flows is not a panacea. Economic activity within a nation can be dramatically affected without any change in the financial flows across its borders and without the government of the nation necessarily even knowing anything about the cause. The Poor suffer most.

Further problems have been visible for a long time and are now coming to pass.

### **Technology will Change Money**

The Internet raises huge problems for cross border financial flows as well as many other issues for taxation and other governmental matters. Some of these consequences of the advent of technology affect the internal, and the external economics of countries. They add to the problems of taxing barter deals, "mate's rates" and cash deals which evade transaction taxes such as Value-added ( Goods and Services Tax (GST) type taxes.

Any item which is trusted and held to have a value so that others will give value for it can be used as money – whether it is a bank note, a gold coin or a seashell. So it is with various uses of the new technologies which give advantages over "normal" money both for the user and for the evasion of taxes.

See the following quotation from The Economist (Ref 8)

*"MOBILE money in Africa comes in different flavours. The sophisticated sort, exemplified by services such as M-Pesa in Kenya, allows account-holders to transfer legal tender electronically to fellow account-holders by entering commands on a mobile phone. Popular though such services are, they have not stopped an older form of mobile money flourishing. This sort uses pre-paid mobile-airtime minutes as a de facto currency that can be transferred between phones, exchanged*

*for cash with dealers who rent out phones, or bartered for goods and services.*

*Pre-paid minutes can be swapped for cash or spent in shops most easily in Côte d'Ivoire, Egypt, Ghana and Uganda, says Chris Chan of Tranglo, a Malaysian firm that facilitates "airtime remittances" to mobile phones. Airtime is commonly used as money in Nigeria, too. Hannes Van Rensburg, Visa's boss for sub-Saharan Africa, says this is partly because regulators there have made it difficult for banks to offer the newer form of mobile money."*

Widespread systems like BitTorrent allow the transmission of large files (like full length films) in bits and pieces from personal computers to other personal computers around the world. The BitTorrent company says on its website:

*"More than 170 million people use our products every month. Our protocols move as much as 40% of the world's Internet traffic on a daily basis."*

Someone in the network can request a video - parts of which may come from a number of different machines. The recipient will not know where they came from and the sending computer's owners may not even know that they have contributed. The original owner will not be involved although they may get a payment for it. The ability of governments to tax such traffic from, and to, a number of different countries is very limited. But a much larger problem has emerged.

The "Block Chain" technology which is used in Bitcoin and other crypto currencies (they are often collectively referred to as "bitcoin") has many potential uses. You do not need to read the following description in italics to understand the potential problems which I will elaborate below.

Wikipedia has this description:

*"A cryptocurrency (or crypto currency) is a digital resource designed to work as a medium of exchange that uses strong cryptography to secure financial transactions, control the creation of additional units, and verify the transfer of resources.123*

*Cryptocurrencies use decentralized control as opposed to centralized digital currency and central banking systems.*

*The decentralized control of each cryptocurrency works through distributed ledger technology, typically a blockchain, that serves as a public financial transaction database.<sup>5</sup>*

*Bitcoin, first released as open-source software in 2009, is generally considered the first decentralized cryptocurrency.<sup>6</sup> Since the release of bitcoin, over 4,000 altcoins (alternative variants of bitcoin, or other cryptocurrencies) have been created.*

*Up to this point there have been some inhibitions about providing credit card numbers for "e-commerce" transactions out of a fear that the number will be captured and used illegally. This fear has been to some extent irrational as the risk of the number being captured while being transmitted on the Net has probably been much less than that presented by having it available to shop assistants, waiters, clerks etc. Any of these who have access to credit card numbers in the course of their work can use them on the Net. The inhibition for them is that if they use the numbers to purchase goods then they have to give an address for delivery. Similarly other transactions could be traced to them so the incidence of this kind of theft has been very low. It should become impossible with the security systems that are now being put into operation on the Internet.*

*Decentralized cryptocurrency is produced by the entire cryptocurrency system collectively, at a rate which is defined when the system is created and which is publicly known. In centralized banking and economic systems such as the Federal Reserve System, corporate boards or governments control the supply of currency by printing units of fiat money or demanding additions to digital banking ledgers. In case of decentralized cryptocurrency, companies or governments cannot produce new units, and have not so far provided backing for other firms, banks or corporate entities which hold resource value measured in it. The underlying technical system upon which decentralized cryptocurrencies are based was created by the group or individual known as Satoshi Nakamoto.<sup>23</sup>*

*As of May 2018, over 1,800 cryptocurrency specifications existed.<sup>24</sup> Within a cryptocurrency system, the safety, integrity and balance of ledgers is maintained by a community of mutually*

*distrustful parties referred to as miners: who use their computers to help validate and timestamp transactions, adding them to the ledger in accordance with a particular timestamping scheme.*<sup>14</sup>

*Most cryptocurrencies are designed to gradually decrease production of that currency, placing a cap on the total amount of that currency that will ever be in circulation.*<sup>25</sup> *Compared with ordinary currencies held by financial institutions or kept as cash on hand, cryptocurrencies can be more difficult for seizure by law enforcement.*<sup>1</sup> *This difficulty is derived from leveraging cryptographic technologies."*

Because they need so much computer time and electrical energy there is a cost to making bitcoins. So they are sold for "normal" money. Then someone else may choose to pay the same amount or more or less for the bitcoin. Much of the initial demand came from criminal organizations as they could transmit bitcoins from computer to computer around the world without passing through any part of the banking system and being extremely secure.

Because of the demand for bitcoin the price increased. So bitcoin became something in which to invest. The price went up. The idea became public. Exchange companies were set up so that bitcoin could be bought and sold in any currency. People rushed to buy bitcoin. The value of the limited supply went up so more people bought and the value increased. The exchange companies charged modestly for their transactions and also, like banks, arranged to hold "bitcoin wallets" to store people's bitcoins.

In spite of several plunges in the "value" of bitcoins ( as determined by their exchange rate with "normal "currency), exchange companies having their store of wallets stolen (hacked) as well as other disasters the attraction of being able to carry out commerce without using the banking systems or possibly avoiding paying tax has secured a place for this new idea of money.

Companies such as PayPal have for some years provided on-line banking services which are used internationally and allow much more user-friendly international banking than the traditional banks. One can buy and sell worldwide using PayPal without going anywhere near a NZ bank. We now have similar systems such as ApplePay and others which are combining with banks to provide ATM services also. But the Bitcoin systems are a further step up and there have been

some ATMs put into service dispensing "bitcoins" –that is moving them from one bitcoin account (wallet) to another.

Companies like Apple and Facebook have considered setting up their own bitcoin systems. They may well become international banking systems.

This profusion of ways of exchanging and storing "value" poses many problems of oversight since the transactions and the records are all encrypted. The problems are being widely studied while they grow larger.

New Zealand now has only a few small banks that are largely owned within New Zealand. Many are represented here but owned and controlled from overseas. The problems of measurement and control of the financial flows become ever greater. Governments are increasingly dependent on accurate reporting from the institutions and audit becomes more difficult.

The "eavesdropping" to remotely monitor who is downloading pornographic material is well established but the use of better security systems will make financial monitoring more difficult. Nonetheless snooping on who is accessing which Internet site should still be possible. This follows from the fact that while the message can be encrypted the "to" and "from" addresses must be in standard form or the communication cannot be delivered.

This is not just a problem for New Zealand. The use of Swiss bank accounts is legendary. Much of Russia's wealth is now in private accounts outside Russia. With the development of Internet banking such facilities are available to "the common man".

In "*The Sovereign Individual*" some years ago it was contended that these effects will lead to a collapse of all government revenues and to nations becoming ungovernable. I hope that it is not so but the possibility exists.

There has always been a system for licensing financial operators and they can be required to report electronically on a daily basis to the Reserve Bank. Internationally one would expect to slowly develop rules for licensing and reporting in a broader context. Banks and the like could be required to have sufficient resources within the nation's borders in order to obtain a license to operate there. But banking operations may increasingly be carried out beyond our nation's borders.

As noted above, it will remain technically feasible to monitor the Internet to determine who is communicating with unlicensed banking operators, even if the encrypted messages cannot be decoded. But this will become more difficult as more of the communication services are carried by low flying satellite systems. Currently "Smart Phones" communicate with "cell towers" which feed into wired systems which then carry the signals via international cables. There are only a few cables carrying the messages from NZ so, in principle at least, there are collection points to monitor all signals between this country and others. But there are also satellite phones already in use. These communicate directly with satellites and these transmit to other satellites and then to the destination to make the individual connections around the world. Monitoring or even detecting such signals has to be extremely difficult.

Taken with "cloud-based" offshore accounting systems such as Zero and a multiplicity of forms of "money" will make the collection of taxes ever more difficult. Things like books, formulae and 3D printer designs can be ordered, delivered and paid for electronically leaving no trace of the transaction.

The well-known and widespread problems of "piracy" in the music and film industries is testament to how difficult these problems are already.

Nations need to be able to measure the flow of money across their borders in order to regulate the economic activity within them. But the pressures of the new technology will require new rules and international codes of behaviour for the financial institutions. This will in turn lead to the consolidation of the approved institutions which are appropriately licensed and audited. The big will get bigger and will become even more of a threat to the integrity and stability of nations.

One is left, in any case, with the problem of the rogue institutions and nations. For example how does one enforce the payment of a forfeited bank account if the bank is in another country which is not co-operative?

The problems in this whole area are huge and menacing but a lot of thought is going into them in banks, computer companies, universities and government circles around the world. Electronic warfare is joined to classical defence. Anti-terrorism precautions, anti-hacking and privacy concerns are all a part of the need to combat the

technological threat to the health of nations which could impact everyone, but hit the poor the hardest.

Always there is a need to balance the good of the individual with the common good. Groups of people, whether friends and associates or a like-minded club like the Bank of International Settlements mentioned earlier can act like a mob of sheep and all go in the same direction at once, without warning. It is necessary to be able to "fence them in" in various ways to prevent such group-think resulting in a threat to the commercial stability of a country – especially a small one. For this purpose we need to be able to measure what is happening in the banking and financial sector. It is going to get harder, not easier, with the introduction and spread of new technologies.

I am intrigued by the thought that a country, such as China, might setup a bitcoin system and peg the value to its own domestic currency. This could give all the advantages of bitcoin and largely remove the problem of knowing what one's savings or purchasing values might be at any time. It also might destroy much of the banking system as it is currently known. It could also be a huge problem for privacy – particularly for criminals or activists.

At some point it is likely that all countries will decide to have their own Fiat bitcoin currency which is the only legal bitcoin currency in their country just as their current denominated currency is so prescribed. The value of other bitcoin currencies will be seriously eroded.

Countries will eventually respond to the bitcoin challenge in some way because they must.

### **Problems with Overseas Ownership.**

Our Overseas Investment Office tries to regulate investment from overseas to ensure that it is ethical and in the national interest. This is not an easy task.

If a purchase is being made by an individual or group of individuals it is likely that some details of their repute and honesty can be gleaned but if the purchase is by a company things are more difficult. In this interlinked world one or more of the shareholders is likely to be a company. This company can have another company as a shareholder which may have effective control or shares can be sold

giving this effect. Or the individual may be acting as a nominee or give someone else power of attorney. It can become very obtuse.

We have companies which are listed on the NZ stock exchange but have substantial numbers of overseas shareholders. They may be listed on the Australian exchange also and may end up with more shares held in Australia than in New Zealand.

To see why this matters consider that the major Australian banks operate through branches in NZ but are quoted on the NZ exchange as well as the Australian exchange. The Australian companies raise money overseas as well as in Australia and fund the NZ branch.

The standard debenture deeds that I have seen from several banks are what I have referred to above as "oppressive". They are required to be accepted if you want a bank overdraft and allow the bank to appoint a receiver at any time of their choosing.

If there were to be a major financial crash it is possible that the Australian parent in extremity could recall their loans to the NZ branch. The local branch would then have to exercise the debentures and recall its loans to customers. Forced sales on a collapsing market and bankruptcies feed on one another. People suffer.

### **Solutions?**

When considering the range of problems described in this chapter it is easy to be surprised at the fact that our society works as well as it does. Each problem, once it is recognized, has some form of patch applied to it by Government much in the same way as a doctor will prescribe to treat each symptom when they cannot diagnose the illness. The illness in the case of money stems from people's desire to build and maintain their financial security and freedom so the majority will use any system which is not forbidden to avoid the imposts needed to run a country. It is hard to see how it might be possible to get rid of the problems without getting rid of the people.

To preserve one's store of value rather than "money in the bank" it may be better to do it by ownership of "things" which are tradeable or saleable for whatever passes as "money" at the time one wishes to trade. This may be shares in a company which one expects to survive a financial collapse or land or buildings or gold.

You will probably understand why, earlier, I suggested a Resource Tax as the means for funding Basic Incomes. Indeed one of the best ways for government to maintain whatever form of "money" they wish to preserve is to require all payments to them and to make all

payments from them in this currency. These payments could not only support this "money" by making it the only legal tender but by using it enforce its use by others.

I cannot see a generic solution for these diverse problems. We need to recognize them and keep treating them individually as well as we can.

## **Chapter 12 Globalization and Sovereignty**

It may seem strange that in this book about why the Poor are poor I have tried to work out how our local systems can be changed to redistribute wealth more fairly but have then moved on to consider larger and larger issues. This is because all people are affected by the major world issues to different extents depending on their position in their local hierarchy. If the country as a whole becomes poorer then those at the top of the heap may be affected but less than those at the bottom. Inevitably, the Poor will be the most affected by changes in the nation's financial and physical environments.

It should be clear that much of the social turmoil arises from unemployment, unequal distribution of wealth, inadequate health care, restricted education services, disassociation from decision making processes, disempowerment and the like. The biggest threats to any nation are probably because of disintegration from within. I have tried to deal with some of the factors that probably contribute to this threat if they are not addressed successfully. There are no magic bullets to solve all things overnight but much can be done.

The idea of self-reliance is important. This means simply that one always has the means to make one's own decisions and to make something of what is necessary in the event of failure of supply. It does not mean that one tries to build a fortress economy separated from the rest of the world.

There are questions such as decisions about the environment, defence, foreign policy, alliances and so forth that I have not touched on. These are huge and important questions but my concern is with those things which are necessary to preserve the democratic integrity

of a nation, to give it a coherence and perspective from which the larger issues can be considered with confidence.

Consider the alternatives. If a government cannot manage its economy, collect its taxes, look after the welfare of its people and prevent the development of unbridgeable gaps in its society then it deserves to be replaced by some other form of organization.

But this may not happen. It may well be that organization simply collapses. There are a number of countries where anarchy prevails with ever changing balances of power between warring factions. They are ungoverned and ungovernable. They cannot be relied on to enter into environmental or other agreements and to keep to them. They cannot be relied on to engage the overarching problems that threaten mankind as a whole.

Indeed, the USA, currently, is a frightening example of the relevance of these concerns. The country that is arguably the most powerful in the world – both economically and militarily – has, with some justification, held itself out as a model for the world with a constitutional democracy, prosperity for all and a belief in "freedom". It has believed itself, again with some justification, to be the leader of the world. But in the space of 3 years since the election of Donald Trump it has withdrawn from almost all formal associations with the world. Unilaterally, overnight and without discussion or justification, the USA has withdrawn from formal agreements which had been entered into by its predecessors. Its much vaunted Constitution has been shown to be grossly inadequate in terms of the maintenance of democracy and safeguarding against the despotic rule of someone unable to think in terms of anything other than money and power.

In this environment wealthy individuals and corporations are able to use the power of the state to further their own ends.

The world has become unpredictable, fragile and frightening in almost all respects. It has become increasingly necessary for governments to consciously work for the security of all its citizens – including the poor. BIs could be an important component of the solutions.

## **Chapter 12 Globalization and Sovereignty**

### **The Global Corporations**

A model preferred by some is for the development of the global corporations to take over from the nations. There is much good that has been done by global corporations in the pursuit of what is good for them and their profits but it is completely unrealistic to expect that they should even be aware of many local concerns and conditions let alone to make decisions which take these things into account.

In spite of some corporations espousing things like the environment and well-being for their staff and customers much of it is a matter of promoting their brand as a means of increasing their market share and profits. They work well with dictators and corrupt officials because that is the way the world is, or is increasingly, becoming.

It must be recognized that amongst the global corporations are those of organized crime. As with individuals there are the good and the bad amongst the global corporations. The ultimate judgment of whether or not a corporation made decisions which were good or bad for humanity may well be an unwitting consequence of decisions made with the best of intentions.

Already the economic pressures that can be brought to bear on governments by the global giants are horrendous. This is true of the legitimate pressure concerning location of factories, development centers and the like. What is more worrying is that there are many hidden pressures ranging from corruption and stand-over threats to the granting or withholding of contributions to party funds. Or, as Donald Trump has demonstrated in the Ukraine, withholding the means of defence against an aggressor.

The problems of contributions to party funds in the age of mass media is one of enormous importance and complexity. The advice supposedly given to the Kennedy family was that the three most important considerations in a Presidential election were money, money and money.

It should not be beyond our collective wit to devise a way for the cost of elections to be borne by the populace at large via taxation rather than by contributions from the rich and powerful which, whatever the protestations to the contrary, obviously are made because the rich and powerful believe that it is money well spent in

order to get laws bent or made to their advantage. David Korten's book, *When Corporations Rule the World*, was published in 1995 and traced the way in which this had led to the 1987 share crash. Revelations about the Great Financial Crash of 2008 show that it was made possible by collusion between bankers, officials and politicians – particularly in the USA. The Poor around the world suffered.

It may well be that without a fundamental change in the way in which our "democratic" elections are funded we will find that the notion of governments governing for the good of all of their citizens becomes a hollow mockery of the concept.

I believe that public funding of elections is essential for the long term survival of nations if they are to be in any sense really self-governing.

### **World Government**

The power of the corporations is well exemplified by the suggestion which has been advanced from time to time to the effect that global corporations should have seats in the United Nations. This would of course put more and more power in the hands of fewer and fewer individuals who already have too much power and wealth.

But the global issues are of such import that it is in the interests of nations that there be some collective bodies which are able to address these issues. Some world government is essential for the collective wellbeing of nations. Only by this means can problems between nations or involving global corporations or global problems be resolved without violence and the enforcing of the will of the more powerful on the less powerful.

Many of the same questions which have been discussed earlier arise in considering what should be under the control of a world body and what should be left to the individual nations. These are similar to the questions which arise with any federation of states – what are the rules between nations as regards trade, finance, defence, policing, state's rights, individual rights and so on. The question becomes more complicated where, as in Europe, nations give up some of their power to a federation. Should the federation then relinquish all or some of these powers to the world body?

The development of federations does not remove the need for a world body. There is no reason why it should not have the same powers as a federation and be able to override the federations. The world body should only exercise those powers to override under very

restrictive conditions where a case can be made that the federation or national processes have been carried out improperly.

What is currently conspicuously missing from the United Nations functions in order for it to carry out the world government role is, amongst other things (such as the veto provisions), the ability to collect taxes and to enforce its decisions. These problems are well known and have been widely discussed for about fifty years to my knowledge. Some progress has been made but I believe that they become ever more urgent. Fundamental to the standing of any decision-making body is the ability to fund itself and to carry out its decisions. In this context a "world police force" is essential.

The pace of technological change continues to increase. The knowledge about weapons of all sorts continues to accumulate and to become more widely available. Some of the science fiction scenarios for attempts at world dominance become more and more plausible without, necessarily, the happy endings.

## **Endpoint**

The last two chapters have been concerned with major issues which are of concern to New Zealand but which are beyond our power to control or influence greatly in the normal course of events. It seems that we humans are conditioned to want a "top dog" for our pack and too frequently our top dogs (I hesitate to use the female term) want simply to have bigger packs under them. Witness the current reaction of the USA. Instead of acknowledging that the American wave has

washed over the world and is receding they are doing their best to alienate all their past friends and allies. Given real leadership they would be welcoming the growing maturity of other nations and guiding them into peaceful and constructive co-operation. Instead they are misusing their power to bully, threaten and destroy almost all organs of international scope.

One of the many memorable teachers I have had used to like to quote "All that is necessary for evil to triumph is that men of goodwill shall do nothing".

The peculiarities of the US Constitution produced a President totally unsuited to the task. Consciously or otherwise he appeared to be progressing down the same sort of path as Hitler, surrounding

himself with sycophants and promoting "*American exceptionalism*" instead of Hitler's "*Aryan purity*". The many good people in the USA appeared to be completely unable – through fear, self-interest in tax cuts or otherwise – to control him. The USA was becoming "grate again".

Unfortunately other countries seem to be headed down a similar track. Brexit appears to have been partly driven by a hankering for the old British Empire. Brexit may destroy the brilliance of the European movement and much of Britain's future.

Thus I fear that the survival of nations as we have come to know them is not guaranteed. There are possibilities for collapse into anarchy or, at the other extreme, for agglomeration into worldwide dominance by a few individuals via interlinked corporations. It is the Poor who will suffer most from all of the approaching problems.

So what can we do? Well, we are one of the lucky countries and the sentiments behind our welfare budget are exactly what the world needs. I have earlier mentioned the story of "the hundredth monkey."

New Zealand has a chance to be the first in the world to show a way forward. We have an obligation to do so because we are a tiny nation with high visibility. The peoples of the world need to have a model of how to improve equality in their nation without destroying the good aspects of capitalism and other political systems that they use. Basic Incomes seem to me to be one of the necessary ingredients.

Most of this book has been taken up with WHY we need Basic Incomes so that everyone can have a measure of dignity and be able to participate in our community on an equal basis rather than being second-class citizens because they are desperate enough to accept benefits with the accompanying limitations on their freedoms. Also HOW can we have Basic Incomes which are paid as of right with no limitations and how we can transform our systems to fulfill these objectives.

What is now needed is a Working Group to consider both BIs, the taxes to pay for them and the way to transform our systems with the minimum of disruption.

Basic Incomes may be critical to the preservation of the capitalist and democratic systems.

Another important subject is that of justice. The system for resolving civil disputes needs fundamental review.

All functioning civilizations have a system of control of one sort or another. We like to say that we adhere to the Rule of Law. The first of the eight principles for the rule of law enunciated by Lord Bingham is "The law must be accessible, clear & predictable." In practice our laws clearly fail to meet these tests – apart from all the others. If it were not so it would not be necessary to have 4 layers of Courts, and "Justice delayed is Justice denied".

I have particularly distinguished between Criminal and Civil cases. They are, or ought to be, fundamentally different in that in the first case the decision may result in some person or persons being deprived of their liberty but in the second the end result will be financial in one way or another and what is required is resolution of the dispute. Yet we attempt to use primarily the same procedures for both.

Apart from the development of Basic Incomes for all ages as a human right my recommendations are:

1. To have civil cases involving sums of up to \$100,000 (whether by payment or remedy) to be resolved in the Disputes Tribunal and for other civil cases to be resolved under the Arbitration Act.

2. For failing to comply with or resolve a Court Order to be a crime enforced by the Police.

3. To extend the jurisdictions and funding of the Ombudsman, the Financial Markets Authority and the Serious Fraud Office to cover all professional bodies which operate under a statute as well as all cases which have an apparent monetary value above that for the Disputes Tribunal.

I have tried to set out some of the things which I believe will help to ensure the health and survival of our nation. As I have indicated this is far from under our control. I am optimistic but not complacent. There is much to be done and we must proceed into the future with our senses very much on the alert. We should do what we can do in order to improve the plight of our own poor then hope that our example may give a nudge to the larger powers to start them collaborating to improve the world – in all ways

I hope that our Government and our people will have the courage to do the things that perhaps only we can start doing. As Bertrand Russell said on his ninetieth birthday "act with vigour in spite of uncertainty."

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- 1.. Geof Bertram's video  
[https://www.youtube.com/watch?v=TQ24nnwb\\_8I&feature=youtu.be](https://www.youtube.com/watch?v=TQ24nnwb_8I&feature=youtu.be)
- Or his slide presentation which is readily readable and faster  
[https://docs.google.com/presentation/d/1djAK\\_gZOH0O3P5VMRzozf-zmHNLTAxXAljPx0Nfq4JY/edit#slide=id.p1](https://docs.google.com/presentation/d/1djAK_gZOH0O3P5VMRzozf-zmHNLTAxXAljPx0Nfq4JY/edit#slide=id.p1)
2. Liam Kennedy - <https://www.socialeurope.eu/inequality-socialisation>
3. <https://www.socialeurope.eu/inequality-and-unions> entitled "Inequality and unions—Brexit, Trump and 'yellow vests' "
- 4 Gai E Duncan's paper is on my website <https://perce.harpham.nz> or in Scoop  
[http://img.scoop.co.nz/media/pdfs/1901/Economic unit review of status of beneficiaries final.pdf](http://img.scoop.co.nz/media/pdfs/1901/Economic%20unit%20review%20of%20status%20of%20beneficiaries%20final.pdf)
5. "Architecture of a Basic Income"  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3346467](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3346467)
6. <https://tilakmarg.com/answers/do-i-have-right-to-defend-my-own-case-in-court-without-lawyer/>
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By Bill Rosenberg "Is New Zealand superannuation affordable"
8. From the Economist  
<https://www.economist.com/finance/economics/2013/01/19/airtime-is-money>
9. <https://www.alternet.org/2018/12/-basic-income-is-easier-than-it-looks/>

## **Gail E. Duncan**

B.Sc., PG Dip Public Health, MPH, PG Dip Prof Economics.

Gail Duncan graduated from Otago University in 1987 with a BSc in microbiology. Following that she worked for 14 years in various technical management roles in primary industry. Her experience included introducing statistical quality control to a major meat plant, and quality assurance in the brewing industry.

In 2001 Gail joined the then Food Safety Division of MAF and has remained with the organisation through its various restructurings and is now a Specialist Advisor with MPI. In 2007 Gail received the NZFSA Director's Award allowing her to complete a Master's Degree in Public Health from Otago University School of Public Health. She has recently co-authored a chapter in an international publication on the Economics of Food Safety and has published and presented on the potential benefits of universal funding of individuals as economic units in an integrated society.

In her spare time Gail is an amateur musician playing the flute, composes and occasionally sings with various choirs. Gail is a member of the St Peter's on Willis Anglican Church Wellington vestry chairs the Social Justice Group, and has a strong interest in the impact of policy on wellbeing.

## **Perce Harpham**

B. E., M. Sc., FIITP, Dip Bus Stud.(Dispute Resolution)

My formal background is that I was born in Tauranga and graduated as a Chemical Engineer and Mathematician from Canterbury University in 1955. I got 2 New Zealand University Blues in rowing.

I was President of the Computer Society in 1973-74. It is now the Institute of Information Technology Professionals and I am a Fellow of that body.

I have given numerous lectures on technical and political topics including being a keynote speaker at a conference in Beijing in 1989.

I stood for the Green Party in Hutt South in 2002 but joined the Labour Party in 2006.

So having had a long, interesting and fortunate life I hope that some of my opinions may be of interest to others. They have been formed by many influences and experiences.

I was raised in "The Depression" of the 1930s by my four siblings and wonderful parents who lost their farm early in 1929 when the price for wool dropped below the cost of production and freight. Then I had great teachers at school and universities as well as mentors in my employment at Dulux New Zealand for 14 years. This included being sent to the United Kingdom to study "anything interesting" in the ICI group of companies.

The ICI Board of Directors had made what I have always regarded as an impeccable main board decision. This was to put a computer from each of the leading developers into one of their divisions. Then to do as they were told in using the computers for three years before evaluating the results and considering putting computers into all their companies' world-wide. So in 1957 I visited six ICI divisions and reported back that computers were not cost effective. I did not foresee that in the next 3years the cost per unit of usefulness would drop by a factor of about 9.

Then as an Operations Researcher in Australia reporting to the Technical Director I was able to study all sorts of management problems at a high level and to improve a number of operational practices. I returned to NZ as Factory Superintendent then Production Manager at Lower Hutt. Next I was responsible for investigating and installing for Dulux the fourth computer in NZ and joined the management team.

I left Dulux in 1968 because of the threats of recession and staff unemployment that accompanied the UK joining the Common Market. I established, Progeni, the first software company in NZ. Its story of success and failure is on my website ([perce.harpham.nz](http://perce.harpham.nz)).

Progeni prospered for 21 years with offices throughout NZ and Australia as well as Chicago, Los Angeles and Beijing.

We had provided 80% of the joint venture staff who developed the software for the Wanganui Computer System (for the police, justice and transport departments). I know of no other large project which was brought in on time, on budget and exceeded the specification. We made a profit and paid tax on it.

We were responsible for most of the Poly computer development. We took it over when the Government wshed on its undertakings to buy these computers which were specialised for educational purposes.

My wife, Myra, was Co-Director of the Commission for the Future and alerted me to the future of China. We first visited China in 1982 and by 1989 had made a few sales leading to us adding Chinese character-handling to a new range - the PolyC computers.

We had earlier recruited Zhao Ling, a recent immigrant to New Zealand. She was incredibly well connected having been an interpreter for Zhou Enlai (first Premier of the People's Republic of China). The results were amazing.

We established an office in Beijing and brought 12 Chinese from different organisations to NZ to work with us. The world was wide open ahead of us. The Tiananmen Square disaster halted things for a year but we retained our presence and marketing efforts.



I prize this photograph which shows me signing a contract to supply our PolyC computers to the Beijing Institute of Aeronautics and Astronautics. It shows us being watched by Zhao Ziyang, Premier of the Peoples Republic of China with his entourage, and David Lange, Prime Minister of New Zealand with his entourage, in the Fishing Palace in Beijing, March 1986.

But then came the 1987 share crash! The Bank of New Zealand was owned by Government which rescued it. (The whole scandalous business of this and the "wine box" has never been told) But this was not enough and the BNZ was desperate. It put receivers into companies where it thought it could recover money quickly.

Nonetheless Government had to put in more money and ultimately sold (gave away?) the BNZ. In the meantime in December 1989 Progeni was put into receivership. A week later the vice-president of the Agricultural Bank of China ( It only had 1.5million employees and 40,000 branches) came to NZ and signed an agreement to use the PolyCs for all their education needs. It was of no avail. Progeni was dead.

Fortunately Myra and I were running our finances separately. At age 57 I went from having been, mistakenly, named on the NZ "hundred rich list" to being unemployed with no income, a personal net worth of \$8,000 and no unemployment benefit because my wife had an income. .

I then ran a small consulting business and completed a 2 year Massey University post graduate course in Arbitration and Mediation in readiness for the projected computer problems in the year 2000 which were mostly avoided.

The point of all the above is that systems of management and control of both people and systems have been an interest of mine from the time I graduated as a chemical engineer. I have been able to pursue this interest in other areas and other countries. Along with my wife and family, people of different ethnicity, creeds, nationalities and religions have informed my views in many different areas – particularly as regards governance and the management of our world.

I enjoy sailing. My wife, Myra, as well as my three children and eight grandchildren are less enthusiastic so I have often sailed solo, such as a return voyage to Sydney at the age of 71 in my 25 foot yacht. My book about my sailing life is referenced below.

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" SOME VOYAGES AROUND NEW ZEALAND & ELSEWHERE" is similarly available to purchase as a printed book from <https://www.amazon.com/dp/B00BPBKG70>

or in ebook form from <https://www.smashwords.com/books/view/314823>

They each show samples to begin with.

This book makes a very nice present for anyone interested in sailing. I hold copies for sale in NZ priced as above.

### **Other Free Bits**

My website - <https://perce.harpham.nz/The Health of Nations.pdf> gives a link to a free out of print book "The Health of Nations" published in 2001.

"The Story of Progeni – Success and Failure." is at <https://perce.harpham.nz/The story of Progeni.pdf> This is a free chapter from a New Zealand Computer Society book marking its 50 years of existence.

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I would appreciate emails to me - [perce@harpham.nz](mailto:perce@harpham.nz) - with comments or questions but please do not expect a rapid response.

**THE END.**

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