

Status of public funding

Since the global financial crisis there has been growing concern that fiscal policies need to change to support more equitable and sustainable growth. The pandemic has highlighted the public spending challenges governments face. Substantive changes to the system have yet to occur, but pressure is building for system change, rather than just system tweaks.

What we're seeing

Economic "headwinds"

Several factors signal challenging economic conditions ahead, not just for NZ but globally too. These have no quick fixes. Aging populations in most western countries means tax revenues may struggle to support a larger, older population. New technologies and business models are changing the nature of work, and often exacerbating inequalities. The pandemic has resulted in considerably increased public debt and reduced GDPs, as well as contributing to socio-economic inequalities. The war in Ukraine has led to higher oil and gas prices, and disrupted food supplies and other supply chains. Uncertainties in the length and outcome of the war are affecting financial markets too.

The increasing frequency and greater impacts of adverse weather is already generating considerable adaptation, remediation and recovery costs.

Climate-related costs are anticipated to substantially increase over the coming decades.¹

Policy change is slow

The need to try alternative economic policies has been recognised since at least the global financial crisis a decade ago. The OECD has highlighted the need to move tax policies away from just supporting economic growth to inclusive growth, where growth is matched with social equity.² They also recognise that this won't be easy.³

There has been a reluctance to introduce more progressive policies that would help decrease inequalities and stimulate productivity.⁴ Even changing the retirement age, or introducing a capital gains tax, are seen as politically risky by major parties here, even when support for these can be high.⁵

"Tax the rich"

There is increasing disquiet that the most wealthy usually pay the least tax. While there are many options to address this, they have been hard to implement due to the many ways that wealth can be protected, the incentives used to attract the ultra-wealthy, and the political influence the very wealthy exert.⁶ However, post-pandemic, more very wealthy people are calling for fairer tax schemes that make it harder for the ultra-wealthy to avoid paying tax.⁷

Modern Monetary Theory

Massive government spending during the pandemic gave life to the contentious debate about "Modern Monetary Theory." This proposes that countries can print more money to pay interest on debt. So, claiming that "there is no more money" could lose legitimacy. Unsurprisingly, many economists fear this will drive up interest rates and/or inflation.⁸ Other non-traditional economic policies may also emerge.

Potential implications

Create

- More equitable societies when equitable taxation

Relate

- Intergenerational disparities and inequalities fuel societal conflicts

Consume

- Consumption patterns will change, and potentially fall if economic conditions worsen
- Inequality leads to poorer national economic performance

Degrade

- Trust in government reduced when inequalities persist
- Ability for government to respond and adapt declines as revenue declines

Connect

- Improved social mobility & connections when inequalities reduced

Define

- Government to redefine its purpose and actions to achieve a more equitable society
- What does equitable growth look like in different communities?

More information (links)

¹ [Treasury statement on the long term fiscal position 2021](#)

² [Tax and fiscal policies after the COVID-19 crisis](#)

³ [Beyond growth: towards a new economic approach](#)

⁴ [Oxfam – reducing inequality](#)

⁵ [More support than oppose capital gains tax](#)

⁶ [Why it's so hard to tax the rich](#)

⁷ [Millionaires ask to pay more tax](#)

⁸ [A beginner's guide to Modern Monetary Theory](#)