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Anglican DIOCESE OF AUCKLAND

Do Justice!!

"Do Justice, Love Kindness and Walk Humbly With Your God" Micah 6:8

A Newsletter on Social Justice Issues

Welcome to the March 2015 edition of Do Justice.. Last month's Talking Cents looked at some of the issues raised by the French Economist Thomas Piketty. Wealth inequality was one of the major issues Piketty looked at. Wealth and income inequality is one of the foremost issues we face in New Zealand today. But why has a country and nation founded on egalitarian principles become so unequal. This month's Do justice looks at some of the history that can explain this, not just in New Zealand but also in the United Kingdom and the United states, the two countries that have probably had the most influence on New Zealand's development.

The unintended consequences of Neoliberalism.

One of the most interesting changes that Piketty identifies in his book *Capital in the 21st Century* was the reversal of the century long trend towards wealth accumulation by a small minority of the population in the UK and France at the beginning of the First World War. Followed by a closing of the gap between rich and poor in the developed world over the next 70 years. Piketty then identifies another reversal as the wealth gap increases from the 1980s, a trend that continues to this day.
France and the UK were not the only countries that experienced this double reversal, other countries had similar experiences but the UK and France were the first countries to regularly produce annual statistics that allows Piketty to measure and analysis national wealth and income. Other European countries and the USA and Canada have seen similar seesaws in the gap between rich and poor. For Australia and New Zealand it is more difficult to track the first reversal in the 1910s but the second reversal in the 1980s is very apparent.

The First Reversal
The Industrial Revolution, that first impacted England and France in the late 18th century, resulted in the underlying asset base of the rich and powerful moving from land to a combination of assets including machinery, buildings, minerals etc. But the 19th century also saw enormous social change including the birth of trade unions and the "science" of economics. We often think of the Magna Carta as being the birth place of our democratic society, 800 years ago this year, but it was the Industrial Revolution that was the real birth with the previous 500 years being an extended pregnancy!
Through the 19th century wealth was generated partly form technological developments – manufacturing, railways, electricity, telephones etc. – but even more so from the fact that the income received by the wealthy was more than required to maintain their standard of living and the surplus was added to their capital;. producing more income the following year. All this suddenly came to an end with the outbreak of the First World War, followed by the revolutions in Russia, Austria and Germany, the Great Depression of the 1930s, the Second World War and the birth of the welfare state that followed the Second World War.

The Welfare State was established partly because of the pressure from the Working Classes that had sacrificed so must in two World Wars and the Great Depression and partly from a fear of Communism, particularly in the Soviet Union, by the rich and powerful.
Piketty quantifies the change by looking at the wealth of the most wealth 0.1% of the population in the mainly English Speaking West. This small elite had seen their wealth increased steadily to about 10% of total national wealth by 1910 and then dropped to 2% by the 1960s. This transfer of wealth from the very wealth to the middle and lower classes resulted in a dramatic narrowing of the gap between rich and poor.
The result of these changes was a relatively short period of close to full employment in the 1960s in most of the developed world. Not only did virtually everyone have a job but they were paid enough to adequately provide for their family without both parents having to work. In New Zealand houses could be bought by young couples through State Advances loans at reasonable interest rates, education up to and including tertiary education was free and we had a health care system that generally worked well. The experience in the UK was similar with the Conservative Prime Minister Harold Macmillan claiming in the run up to the 1957 General Election that Britain had "never had it so good". Macmillan won that election mainly because he did not try to change the most of the reforms of the previous Labour government from 1945-51. Americans had a different but similar experience. There was also a broad consensus between the major political parties in the UK, USA and New Zealand.
So what went wrong? Surely the policy makers had at last found the way to give not just a few of the people a prosperous life but the majority. Or was it just a flash in the pan? The 1970s unfortunately showed that it was indeed a flash in the pan. In the USA the Vietnam War and the Civil

Rights protests took their toll plus the impact of a crocked President who eventually resigned. In addition the manufacturing heart of the USA in the North East started to move South in search of lower cost labour and no unions which made it much easier for manufacturers in the following decades to move operation to even lower cost labour in China, Bangladesh, South American etc.

In Britain a series of inept governments both left and right led to extreme labour unrest and the battle with the Coal miners. One response to this was the decision by Britain to join the Common Market which had a major impact on New Zealand.

And in New Zealand the impact of the potential loss of much of the main international market for meat and dairy products – the UK – led to the Muldoon Government and price and wage freezes, carless days and a "command" economy".

The elections of Margret Thatcher in the UK, Ronald Regan in the USA and the David Longe Government in the late 1970s and 1980s was a reaction to the confusion of the previous decade.

Reversal Two

A group of economists, mainly centred I at Chicago University and lead by Professor Milton Freidman believed that there was a better way to run economies that had been demonstrated in the previous 10-20 years. They concluded that competition and a "free" market was the answer to all the woos. Governments were not good in managing and running "businesses" including Telephones, Power Stations, Water supply, Coal Mines etc and that government departments needed to have structures similar to those found in large business – in other words corporate structures with CEOs responsible for the performance of their department. This approach became known as neoliberalism. Margret Thatcher and Ronald Regan picked up on these ideas and implemented major neoliberal reforms in their countries. In New Zealand in 1984 the newly appointed Labour Finance Minister Roger Douglas was also convinced of the rightness of the Chicago School and began to implement a series of reforms that completely changed the way the New Zealand Government worked.

Whilst some of the reforms of the 1980s and 1990s were necessary and helpful the changes to taxation had major unintended consequences that we are still living with. Prior to the Douglas taxation reforms we had a strongly progressive income tax regime and complex sales taxes. Douglas scrapped all the different sales taxes on goods and services (except for excise tax on alcohol and tobacco and replaced it with the Goods and Services Tax (GST) which applied to everything.

The reforms to income tax in 1986 resulted in the marginal tax rate being reduced from 66% to 33%. About the same time Douglas introduced the Fringe Benefit Tax to restrict the large number of non-taxable benefits companies where paying to senior staff such as company cars, club memberships, health insurance etc. The net result of these reforms was an explosion in corporate salaries in both the private and public sectors. We now have COEs of government departments being paid 2 or 3 times the salary of the Prime Minister and in Auckland the most highly paid Council controlled Organisation CEO 3 times the salary of the Mayor. We now have one of the least progressive income tax systems in the world. In 2011 just over 70% of income tax revenues came from those earning up to $100,000 and just 8% from those earning over $250,000. [1]

The neoliberal revolution did not end with the defeat of the Labour government in 1990 but was continued by Ruth Richardson and the National Government into the 1990s with major changes to employment law that effectively restricted the activities of trade unions and to the benefit system that protected the poor. As a result the gap between rich and poor dramatically increased both as far as incomes were concerned and also wealth. Some politians, including the present government, argue that income inequality has not changed much in the last 10 years but they conveniently ignore the steady, almost, relentless increase in wealth of the top 1% of New Zealand families and the lack of progress in addressing issues such as Child Poverty, under employment etc, issues that are the direct consequence of the neoliberal reforms.

Is another Reversal possible?

Now that the consequences of Reversal Two have become clear and that the wealth gap is reaching figures not seen since the 1910s it is important to ask this question. The last think the vast majority of New Zealanders want is for a repeat of the 1914-1945 period with World Wars and great depression.

Hopefully it will not be necessary to go through such drama and pain to regain the egalitarian society we had. Nor is it necessary to dismantle all the neoliberal reforms. For starters we could

- Ensure that all families had sufficient income to live in dignity.
- The reintroduction of a progressive taxation system that tied to the Living Wage.
- Change employment law to give more protection for workers and trade unions.
- Outlaw such tactics as Zero Hour contracts that make a person an employee without any guarantee of paid work.

History can teach us much and apathy is possibly the biggest enemy as Winston Churchill said in 1935

"*When the situation was manageable it was neglected, and now that it is thoroughly out of hand we apply too late the remedies which then might have effected a cure. There is nothing new in the story. It is as old as the sibylline books. It falls into that long, dismal catalogue of the fruitlessness of experience and the confirmed unteachability of mankind. Want of foresight, unwillingness to act when action would be simple and effective, lack of clear thinking, confusion of counsel until the emergency comes, until self-preservation strikes its jarring gong–these are the features which constitute the endless repetition of history."*[2]

We do have time but will we use it wisely?

[1] *www.wiki**newzealand**.org*

[2] https://www.nationalchurchillmuseum.org/blog/churchill-quote-history/