

## TAXING CAPITAL IN THE TWENTIETH-FIRST CENTURY: A NEW ZEALAND PERSPECTIVE

JONATHAN BARRETT<sup>1</sup>

### ABSTRACT

Thomas Piketty's *Capital in the Twentieth-First Century* ('Capital') has been a remarkable publishing success. His thesis is that inequality is worsening to a point of crisis because the rate of return on investment exceeds that of general economic growth has attracted significant attention. Conversely, his remedial prescription for a progressive global tax on capital has been widely dismissed as unworkable. How relevant is Piketty's thesis and remedy for New Zealand? Domestic commentators generally believe that his findings in relation to major economies, notably the United States, are not directly relevant to New Zealand, a small and open economy. Furthermore, in contrast to Piketty's accessing and processing comprehensive data, there is a dearth of information about wealth in New Zealand. Nevertheless, as in all developed economies, inequality is a pressing concern, and Piketty's proposal for taxing capital usefully focuses attention on this area of tax policy which has been greatly neglected in New Zealand.

In this article, an overview of *Capital* is given and issues of inequality in New Zealand are sketched. A review of local commentaries on *Capital* is also provided. Consideration is given to appropriate policy responses to New Zealand's inequality issues. Arguments are then presented for a capital acquisitions tax, and conclusions are drawn.

---

<sup>1</sup> Jonathan Barrett is a Senior Lecturer in Taxation and Commercial Law in the School of Accounting and Commercial Law, Victoria University of Wellington. His doctoral research related to taxation and human rights.

## I CAPITAL IN THE TWENTY-FIRST CENTURY

Thomas Piketty's *Capital in the Twentieth-First Century* ('*Capital*'),<sup>1</sup> a dense and widely unread examination of wealth accumulation,<sup>2</sup> is a publishing phenomenon which has attracted significant attention from politicians and policymakers.<sup>3</sup> Indeed, Geoff Bertram argues that Piketty's theory of capital promises 'a Kuhnian scientific revolution' in fiscal policy.<sup>4</sup> Bertram further predicts that 'there is a sea-change coming in the global intellectual climate, and New Zealand will as usual be swept along with it',<sup>5</sup> although Brian Easton suggests that '[w]hat is going on overseas will impact here intellectually – albeit with a lag, of perhaps a decade or so.'<sup>6</sup>

Piketty sums up his thesis as follows:<sup>7</sup>

*This fundamental inequality which I will write as  $r > g$  (where  $r$  stands for the average annual rate of return on capital, including profits, dividends, interest, rents and other income from capital, expressed as a percentage of its total value, and  $g$  stands for the rate of growth in the economy, that is the annual increase in income or output) ... it sums up the overall logical of my conclusions.*

Demonstrating that those who possess more capital are able to accumulate and compound their wealth is not new, and in 2000, physicists Jean-Philippe Bouchaud and Marc Mézard constructed a model which demonstrated how wealth could condense into the hands of a small number of capital holders.<sup>8</sup> James Meade and his one-time students, Anthony Atkinson and Joseph Stiglitz,<sup>9</sup> have analysed inequality, its causes and

---

<sup>1</sup> Thomas Piketty, *Capital in the Twentieth-First Century* (Arthur Goldhammer trans, The Belknap Press of Harvard University Press, 2014) [trans of: *Le capital en XXI siècle* (first published 2013)].

<sup>2</sup> See, for example, Jordan Ellenberg, 'The Summer's Most Unread Book Is ...', *The Wall Street Journal* (online), 3 July 2014 <<http://www.wsj.com/articles/the-summers-most-unread-book-is-1404417569>>.

<sup>3</sup> For example, Andrew Little, leader of the New Zealand Labour Party, has visited Paris to consult with Piketty: see Richard Harman, 'Labour Talking about Taxing Wealth' on *Politik* (29 April 2015) <<http://politik.co.nz/en/content/economy/224/LABOUR-TALKING-ABOUT-TAXING-WEALTH-Grant-Robertson-Thomas-Piketty-Andrew-LittleMichael-Cullen-peter-Harris-capital-gains-tax.htm>>.

<sup>4</sup> Geoff Bertram, 'Has Capital in the Twentieth-First Century Changed Anything?' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 15, 16.

<sup>5</sup> *Ibid*, 28.

<sup>6</sup> Brian Easton, 'How Economists Might View the Piketty Thesis' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 50, 50.

<sup>7</sup> Piketty, above n 1, 25.

<sup>8</sup> Jean-Philippe Bouchaud and Marc Mézard, 'Wealth Condensation in a Simple Model of Economy' (2000) 282 *Physica A* 536. See also Ofer Malcai, Ofer Biham, and Sorin Solomon, 'Power-Law Distributions and Lévy-Stable Intermittent Fluctuations in Stochastic Systems of Many Autocatalytic Elements' (1999) 60 *Physical Review E* 1299. Commenting on the research, Mark Buchanan observes that 'the richest 40 people in Mexico have nearly 30% of the wealth': see Mark Buchanan, 'Wealth Happens' (2002) 80(4) *Harvard Business Review* 49, 53. Rather than wealth condensation, Piketty, above n 1, 336 uses the term 'hyperconcentration' of wealth.

<sup>9</sup> See, for example, Joseph E Stiglitz, *The Price of Inequality* (Allen Lane, 2012).

consequences, since the 1960s.<sup>10</sup> Indeed, Meade and Atkinson have presented more nuanced explanations of inequality than Piketty: they focus on the quality of investments which the less wealthy are able to make. Atkinson says 'it is less the relationship between  $r$  and  $g$ , and more differences in  $r$  and the differences in the savings rate,  $s$ ' that matter.<sup>11</sup> Even when the average rate of return on investment is low, as it has been since the Global Financial Crisis, the wealthy obtain better returns because their larger investments are not consumed by management fees and they have access, for instance, to the spectacular returns that hedge funds may provide.<sup>12</sup> And, even when people pursue less exotic forms of investment, as Meade observes, 'the rate of return on property is much lower for small properties than for large properties'.<sup>13</sup> Despite these antecedents and refinements of his theory, Piketty's thesis is particularly persuasive because his extensive accessing and analysing of data present plausible evidence of the tendency towards wealth condensation in developed economies. His remedy for this mischief is a progressive global tax on capital.

This article takes advantage of the popularity of *Capital* to consider inequality in New Zealand and the potential for taxing wealth as Piketty prescribes. The article is structured as follows: an overview of *Capital* is first given and issues of inequality in New Zealand are sketched. A review of local commentaries on *Capital* is also provided. Consideration is given to appropriate policy responses to New Zealand's inequality issues. Arguments are then presented for a capital acquisitions tax, and conclusions are drawn.

## II INEQUALITY IN NEW ZEALAND

Fundamental inequality issues are common across the developed world, whereas other problems are more pronounced in different countries.<sup>14</sup> Along with other Organisation for Economic Cooperation and Development (OECD) members, New Zealand's growth has been hindered by increasing income inequality over the past 30 years. But the unequal position of Māori and Pacific peoples in New Zealand adds a unique dimension to inequality concerns. These and related issues will be considered in this part of the article.

---

<sup>10</sup> Meade himself cites the philosopher John Rawls and the economists Henry Phelps Brown, David Champernowne, Amartya Sen and John Stone as influences on his work: see J E Meade, *The Just Economy* (George Allen & Unwin, 1976) 10.

<sup>11</sup> Anthony B Atkinson, 'Can We Reduce Income Inequality in OECD Countries' (2015) 42 *Empirica* 211, 220.

<sup>12</sup> *Ibid*, 221.

<sup>13</sup> J E Meade, *Efficiency, Equality and the Ownership of Property* (Allen & Unwin, 1964) 44.

<sup>14</sup> The United States is an exception among developed countries. While it has a very high United Nations Development Program ('UNDP') human development index ('HDI') rank of 5<sup>th</sup>, its inequality-adjusted HDI ('IHDI') is ranked 28<sup>th</sup>. Generally, the top-ranked countries have similar HDIs and IHDI. Thus the HDIs are for Norway (1<sup>st</sup>); Australia (2<sup>nd</sup>); New Zealand (7<sup>th</sup>); Canada (8<sup>th</sup>); Ireland (11<sup>th</sup>); Sweden (12<sup>th</sup>); Iceland (13<sup>th</sup>); United Kingdom (14<sup>th</sup>); Finland (24<sup>th</sup>) whereas the IHDI rankings are: Norway (1<sup>st</sup>); Australia (2<sup>nd</sup>); New Zealand (no data); Canada (9<sup>th</sup>); Ireland (10<sup>th</sup>); Sweden (7<sup>th</sup>); Iceland (6<sup>th</sup>); United Kingdom (16<sup>th</sup>); Finland (11<sup>th</sup>). See UNDP, *Human Development Report 2014, Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience* (UNDP, 2014).

### A. *Inequality in Income*

*Capital* helps New Zealanders to recognise they are ‘part of the Anglo-Saxon pattern of steeply rising inequality since 1980’.<sup>15</sup> New Zealand was once considered an exceptionally egalitarian society,<sup>16</sup> but income equality fell dramatically following the neoliberal reforms of the 1980s and 1990s.<sup>17</sup> Thus, in 1984, at 0.27,<sup>18</sup> New Zealand’s Gini coefficient was similar to the income distributions of contemporary Scandinavian societies.<sup>19</sup> Nevertheless, having fallen, income distribution has been fairly stable for the past two decades.<sup>20</sup> Indeed, Bertram claims with some plausibility that New Zealand is ‘one of the less unequal Anglo economies’.<sup>21</sup> However, different income distribution measures can lead to conflicting conclusions and complacency. Thus Donald Curtin argues that both Australia and New Zealand ‘have a slightly smaller share going to the top 1 per cent than France does, and both of us are comparable to the egalitarian Swedes’.<sup>22</sup> But, according to the OECD, New Zealand has a Gini coefficient of 0.32, compared with 0.3 for France, and Sweden’s significantly lower coefficient of 0.27.<sup>23</sup> Besides, despite the attention the wealthiest one per cent receives,<sup>24</sup> from a practical inequality perspective, the position of the bottom 40 per cent matters more.<sup>25</sup>

Working for Families (WfF), a limited negative income tax, is credited with improving poverty rates and staving off greater income inequality.<sup>26</sup> As Bernard Hickey observes, WfF closes the gap between  $r$  and  $g$ .<sup>27</sup> Furthermore, increases in the national minimum wage pursued by the Labour-led government (1999–2008) have contributed to a stabilisation of income inequality. The current National-led government has maintained WfF, increased the minimum wage and announced plans to raise benefits in real terms for

<sup>15</sup> Bertram, above n 4, 28.

<sup>16</sup> See Michael King, *The Penguin History of New Zealand* (Penguin Books, 2003) 282.

<sup>17</sup> See Brian Easton, ‘Economic Inequality in New Zealand: A User’s Guide’ (2013) 28(3) *New Zealand Sociology* 19–66.

<sup>18</sup> See Bryan Perry, *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013* (Ministry of Social Development, 2014) 18.

<sup>19</sup> See, generally, UNDP, above n 14. ‘The Gini coefficient, which compares cumulative proportions of the population against cumulative proportions of income they receive. It ranges between 0 in the case of perfect equality and 1 in the case of perfect inequality.’ See Statistics New Zealand, ‘Income Inequality’ <[http://www.stats.govt.nz/browse\\_for\\_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/income-inequality.aspx#anchor26](http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/income-inequality.aspx#anchor26)>.

<sup>20</sup> See Bryan Perry, *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2013* (Ministry of Social Development, 2014) 90.

<sup>21</sup> Bertram, above n 4, 28. Certainly, using comparative Gini coefficients, New Zealand is markedly less unequal than the United States (0.38) but, at 0.32, the same as Canada and similar to Australia and Ireland (0.33) and the United Kingdom (0.34). See ‘Income Inequality’ Statistics New Zealand <[http://www.stats.govt.nz/browse\\_for\\_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/income-inequality.aspx](http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/Home/Standard%20of%20living/income-inequality.aspx)>.

<sup>22</sup> Donald Curtin, ‘Why the Fuss?’ in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 40, 47.

<sup>23</sup> See Statistics New Zealand, above n 21.

<sup>24</sup> See, for example, Stiglitz, above n 9.

<sup>25</sup> See OECD, *In It Together: Why Less Inequality Benefits All* (OECD Publishing, 2015) <<http://dx.doi.org/10.1787/9789264235120-en>>.

<sup>26</sup> See, for example, Tony Blakely, ‘Social Injustice is Killing People on a Grand Scale’ (2008) 121(1281) *New Zealand Medical Journal* 7, 8.

<sup>27</sup> Bernard Hickey, ‘What Piketty Means for Us’ in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 75, 79.

the first time since 1972.<sup>28</sup> These measures have prevented income inequality deteriorating further but, as Lisa Marriott and Dalice Sim observe, such transfers are not a long-term solution to inequality.<sup>29</sup>

### **B. Inequality in Wealth**

If income inequality in New Zealand is marginally less severe than other Anglophone countries, what of wealth inequality? The simple answer is that we do not know. As Peter Skilling observes, '[a]vailable data in New Zealand is sadly lacking on the distribution of wealth, with most commentators still relying on [a 2007 analysis]'.<sup>30</sup> In Easton's view, 'there is no good quality data about top wealth' in New Zealand.<sup>31</sup> Max Rashbrooke concedes there is a lack of relevant data but infers that Piketty's thesis does, indeed, apply in New Zealand. He points to tangential evidence – for example, the *National Business Review's* Wealth List has increased from NZD12 billion to NZD30 billion in thirty years.<sup>32</sup> But, as Matt Nolan says, 'we need to research – not assume'.<sup>33</sup> Piketty's lesson for New Zealand is, then, perhaps, as much about the collection and processing of data as it is about taxing capital.

Any research into individual wealth in New Zealand is hampered by the common use of trusts. No one knows how many trusts currently exist in the country: estimates vary from 300 000 to 500 000. Thus the New Zealand Law Commission observes that 'it is difficult to develop a comprehensive view of the trust landscape, particularly since there is no record of the number of trusts in New Zealand'.<sup>34</sup> The Inland Revenue Department ('IRD') has made some in road into the use of trusts for splitting active income to avoid income tax,<sup>35</sup> but trusts remain popular 'to shelter income from various social taxes (e.g. child

---

<sup>28</sup> Bill English, 'Budget Speech' (media release) 21 May 2015. It is likely that the Māori Party and United Future, National's coalition partners have exerted a moderating influence on social policy. New Zealand's mixed member proportional voting system is designed to create compromises. As David Runciman notes, in contrast to the United Kingdom, in continental Europe 'there are barriers in the way of vastly unequal distributions of wealth and power and where there also happen to be proportional representational systems that force multiple parties to negotiate': see David Runciman, 'Notes on the Election' (2015) 37(10) *London Review of Books* 5.

<sup>29</sup> Lisa Marriott and Dalice Sim, 'Indicators of Inequality for Māori and Pacific People' (Working Papers in Public Finance No 09/2004, Victoria University of Wellington, 2014) 27.

<sup>30</sup> Peter Skilling, 'Attitudes to Inequality in 2014: Results from a 2014 Survey' (2014) 29(3) *New Zealand Sociology* 38, 38. The analysis relied upon is Jit Cheung, *Wealth Disparities in New Zealand* (Statistics New Zealand, 2007). However, the data appears to have been gathered in 2003–04: see Perry, above n 20, 39, n 14.

<sup>31</sup> Easton, above n 6, 50. See also Simon Chapple, 'Piketty's Book is the Real Article' in Geoff Bertram et al *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 30, 39 on the lack of income and wealth data in New Zealand.

<sup>32</sup> Max Rashbrooke, 'Bringing Wealth into the Spotlight' in Geoff Bertram et al *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 132, 138.

<sup>33</sup> Matt Nolan, 'What Is the Piketty Model, and Does It Fit New Zealand?' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 116, 131.

<sup>34</sup> New Zealand Law Commission, *Some Issues with the Use of Trusts in New Zealand: Review of the Law of Trusts Second Issues Paper* (IP 20, 2010) [1.4].

<sup>35</sup> See *Penny & Hooper v CIR* [2011] NZSC 95. Before then, IRD estimated that \$300 million annual income tax was lost by taxpayers using trusts to split active income: see Grahame Armstrong, 'Spotlight to Fall on Tax-Dodgers' *Stuff* (online) 25 October 2009 <<http://www.stuff.co.nz/national/2998145/Spotlight-to-fall-on-tax-dodgers>>.



support and student loan repayments) or to enable people to receive social support'.<sup>36</sup> Generally, avoidance of resident status, use of trusts and private companies ensure a fuller understanding of wealth distribution is obfuscated.<sup>37</sup>

Despite the lack of accurate data, inferences can be drawn. Henry Phelps Brown tells us that [t]he degree of concentration of wealth is everywhere far higher than that of income'.<sup>38</sup> Indeed, Bryan Perry concludes that '[f]or both Australia and New Zealand the Gini for wealth is roughly double the income Gini. The ratio of top quintile share to bottom quintile share (S5:S1) is 5 for income for both Australia and New Zealand, whereas the same share ratio for wealth is "off the scale" – around 70 for Australia [and unknown for New Zealand]'.<sup>39</sup>

### ***C. Inequality Among Ethnic Groups***

Poverty is a different issue from inequality but, as Marriott and Sim observe, 'to the extent that greater inequalities exist among certain ethnic groups, the result is higher levels of poverty among these ethnic groups'.<sup>40</sup> Their investigation updated Ministry of Social Development research into health; knowledge and skills; paid work; economic standard of living; cultural identity; and social connectedness. Māori and Pacific people scored significantly worse than European and Asian populations across all categories.<sup>41</sup> These findings are of particular significance, since the wealthier European population is ageing and its fertility rate is falling. In contrast, '[t]he Pacific population has the highest growth rate of any ethnic group, with 38 per cent of the population under the age fifteen'.<sup>42</sup> They are, in Karlo Mila's words, 'significant arteries in New Zealand's future lifeline'.<sup>43</sup> It is critical, then, for future society and the economy that Māori and Pacific people are enabled to reach their full potential and are not held back by inequality of opportunities: investment in human capital must be made to 'promote skills development and learning across people's lives'.<sup>44</sup>

### ***D. Inequality Among and Between Generations***

On a day-to-day basis, intergenerational inequality is greatly associated with ownership of real property and the unequal opportunities among the young to gain the welfare

---

<sup>36</sup> Victoria University of Wellington Tax Working Group, *A Tax System for New Zealand's Future: Report of the Victoria University of Wellington Tax Working Group* (Centre for Accounting, Governance and Taxation Research, Victoria University of Wellington, 2010) ('Tax Working Group') 28.

<sup>37</sup> Easton, above n 6, 56.

<sup>38</sup> Henry Phelps Brown, *Egalitarianism and the Generation of Inequality* (Oxford University Press, 1988) 361. See also Piketty, above n 1, 336

<sup>39</sup> Perry, above n 20, 39.

<sup>40</sup> Marriott and Sim, above n 29, 4.

<sup>41</sup> *Ibid.*, 26.

<sup>42</sup> Karlo Mila, 'Only One Deck' in Max Rashbrooke (ed), *Inequality: A New Zealand Crisis* (Bridget Williams Books, 2013) 91, 99.

<sup>43</sup> *Ibid.*

<sup>44</sup> OECD, 'Focus on Inequality and Growth' (2014) <<http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf>>.

benefits of homeownership.<sup>45</sup> Thus, according to David Seymour, '[f]or the first time in New Zealand's history, house ownership has become the privilege of the wealthy' and 'property ownership is heritable'.<sup>46</sup> But, even when people do have access to private home ownership, since debt is a critical determinant of wealth inequality,<sup>47</sup> young families with large mortgages are unfavourably positioned relative to older people with mortgage-free homes. More generally, New Zealand has commendably tackled elder poverty by linking basic superannuation to the median wage, whereas other non-superannuitant beneficiaries have become relatively poorer because their benefits have been linked to the consumer price index.<sup>48</sup> Education is another significant cause of debt for younger people. Indeed, Atkinson observes that '[i]ncreased reliance on parental funding [for tertiary education] means that inequality of income in one generation is to a greater extent associated with inequality of opportunity in the next generation.'<sup>49</sup>

### ***E. Inequality Among Regions***

Shamubeel Eaqub observes that 'the lower bounds of household income are similar across all regions, but the opportunity for high household income is confined to Auckland and Wellington. The economic prospects across – and often within – our regions are vastly unequal'.<sup>50</sup> The median household income in Auckland, for example, is similar to France, and that of Wellington to Finland, but the household median income in Northland is on a par with Timor-Leste.<sup>51</sup>

### ***F. Lived Inequality***

Tim Hazledene asks where in *Capital* is a discussion of the problems caused by inequality?<sup>52</sup> Thus Piketty's data analysis fails to take into account the consequences and nuances of inequality, the real, quotidian experience of being denied dignity and excluded from the benefits of social existence. These are amply evident and recorded in New Zealand<sup>53</sup> and are the types of social problems documented in *The Spirit Level*.<sup>54</sup> Life

---

<sup>45</sup> See Tony Fahey and Michelle Norris, 'Housing' in Herbert Obinger, Chris Pierson, Francis G Castles, Stephan Liebfried and Jane Lewis (eds), *The Oxford Handbook of the Welfare State* (Oxford University Press, 2010) 479, 491.

<sup>46</sup> Quoted by Rob Stock, 'ACT Warns on Home Ownership' *The Dominion Post* (Wellington) 13 May 2015, B4. The comment is significant because Seymour is the sole Member of Parliament and leader of ACT, a party of economic libertarians.

<sup>47</sup> OECD, *In It Together: Why Less Inequality Benefits All* (OECD Publishing, 2015) 20 <<http://dx.doi.org/10.1787/9789264235120-en>>.

<sup>48</sup> Stacey Kirk and Andy Fyers, 'Pensions Rise Way Ahead of Benefits' *The Dominion Post* (18 May 2015) A2. See English, above n 28 on plans to increase benefits in real terms.

<sup>49</sup> Atkinson, above n 11, 219.

<sup>50</sup> Shamubeel Eaqub, *Growing Apart: Regional Prosperity in New Zealand* (Bridget Williams Books, 2014) 10.

<sup>51</sup> *Ibid.*, 10. See also Susan Jacobs, 'Developing a Regional Social Progress Index' (Institute for Governance and Policy Studies, Victoria University of Wellington, 2015).

<sup>52</sup> Tim Hazledene, 'Pickings from Piketty' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 67, 74.

<sup>53</sup> See, generally, Max Rashbrooke (ed), *Inequality: A New Zealand Crisis* (Bridget Williams Books, 2013).

<sup>54</sup> Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Equality Is Better for Everyone* (Penguin, 2010).

expectancy and income are strongly correlated,<sup>55</sup> as are poverty and childhood morbidity.<sup>56</sup> Inequality in life expectancy has increased with worsening income inequality,<sup>57</sup> and, in New Zealand, regressive tax reforms have been linked to increased differences in mortality rates.<sup>58</sup> It is appropriate that Richard Wilkinson and Kate Pickett are epidemiologists, since the metaphor of disease more aptly communicates the individual and social harm of inequality than a comparison of national Gini coefficients. But, beyond compassion, why should the well-off be concerned about inequality?

### G. Economic Efficiency

Among the Bretton Woods institutions which formulated the 10 neoliberal policies of the Washington Consensus,<sup>59</sup> the idea that inequality is an unfortunate but necessary trade-off for economic growth has become greatly disbelieved. Summing up a post-Washington Consensus, Jonathan Ostry and his fellow researchers from the International Monetary Fund conclude:<sup>60</sup>

*Extreme caution about redistribution – and thus inaction – is unlikely to be appropriate in many cases. On average, across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations.*

The World Bank has been more forthcoming, and argues that ‘for countries and local communities, extreme inequalities in assets, power, and voice are corrosive, linked and self-perpetuating’.<sup>61</sup> These effects are not limited to those who suffer poverty and inequality directly; society as a whole suffers, ‘stability is undermined, and the ability to solve economic, social, and environmental problems (that require collective action) dissipates’.<sup>62</sup> In more equal societies, ‘people are more likely to trust each other, measures of social capital and social cohesion show that community life is stronger, and homicide rates and levels of violence are consistently lower’.<sup>63</sup> There is no reason why New Zealand should be immune from such social malaise.<sup>64</sup>

---

<sup>55</sup> Richard G Wilkinson, *The Impact of Inequality: How to Make Sick Societies Healthier* (Routledge, 2005) 102.

<sup>56</sup> Susan St John and Donna Wynd, *Left Behind: How Social and Income Inequalities Damage NZ Children* (Child Poverty Action Group, 2008).

<sup>57</sup> Gopal K Singh and Mohammad Siahpush, ‘Widening Socioeconomic Inequalities in US Life Expectancy, 1980–2000’ (2006) 35 *International Journal of Epidemiology* 969.

<sup>58</sup> Tony Blakely, Shilpi Ajwani, Bridget Robson, Martin Tobias and Martin Bonné, ‘Decades of Disparity: Widening Ethnic Mortality Gaps from 1980 to 1999’ (2004) 117:1199 *New Zealand Medical Journal* <<http://www.nzma.org.nz/journal/117-1199/995/content.pdf>>.

<sup>59</sup> See World Health Organization, ‘Washington Consensus’ <<http://www.who.int/trade/glossary/story094/en/>>.

<sup>60</sup> Jonathan D Ostry, Andrew Berg Charalambos G Tsangarides, ‘Redistribution, Inequality, and Growth’ (IMF Staff Discussion Note, SDN/14/020) 26.

<sup>61</sup> World Bank, *World Development Report 2003: Dynamic Development in a Sustainable World*, (Washington, World Bank, 2003) 184.

<sup>62</sup> Ibid.

<sup>63</sup> Ibid, 33.

<sup>64</sup> Eaquib, above n 50, 23 notes that these risks are real for a regionally unequal New Zealand.



The gap between rich and poor has been deteriorating for 30 years and is now at its highest level across the OECD. This phenomenon has significant impact on economic growth. For example, it is estimated that New Zealand (the worst affected country, along with Mexico) lost 10 per cent of its potential economic growth because of its increasing income inequality since the 1980s. This is greatly attributable to the lowest 40 per cent of income earners, who tend to invest less than others in education, falling behind the rest.<sup>65</sup> As noted, in New Zealand, this disadvantaged group are over-represented by Māori and Pacific people, whose population is increasing. Ganesh Nana sums the issue up: 'inequality of opportunity leads inevitably to a workforce that is less skilled (and is thus less productive)' than it could be; 'there is a very real economic loss incurred by the existence of unemployed, underemployed, untrained, disenchanted, disconnected, disenfranchised and, indeed, disruptive resources'.<sup>66</sup>

### III WHAT SHOULD BE DONE?

Bouchaud and Mézard, the physicists whose model of wealth condensation anticipated Piketty's  $r < g$ , conclude that increased taxation 'seems to be an efficient way to reduce inequalities'.<sup>67</sup> Likewise, for Wilkinson, 'redistributing income from rich to poor improves health no matter what mechanism' is employed.<sup>68</sup> Indeed, funding public needs, effecting transfers from the wealthy to the needy, and obviating wealth condensation are all functions to which taxes can contribute. But they are not a panacea. Taxes may add to equality but access to tertiary education, decent work opportunities, stronger legal support for trade unions, higher minimum wages and the general provision of public goods and services are also necessary drivers of a more equal society.<sup>69</sup> Atkinson attributes the significant reduction of inequality in post-war Europe to 'redistribution via the welfare state and progressive taxes, a reduced share of capital income and a marked decline in the concentration of wealth, and equalizing labour market policy'.<sup>70</sup> And so, we should not think that taxes alone can remedy the mischief of inequality but they can contribute, and the remainder of this article focuses on that potential contribution.

#### A. More-Progressive Income Tax

Symmetry lies in seeking to combat income inequality through more-progressive income taxation.<sup>71</sup> In the post-War period, when developed countries were most equal (and economic growth was highest), income taxes were at their most progressive. In that context, Atkinson's recommendation of restoring progressive income tax with 10 per cent steps to a top marginal rate of 65 per cent does not seem excessive.<sup>72</sup> A degree of income

---

<sup>65</sup> OECD, 'Focus on Inequality and Growth' (2014) <<http://www.oecd.org/els/soc/Focus-Inequality-and-Growth-2014.pdf>>.

<sup>66</sup> Ganesh Nana, 'The Cost of Inequality' in Max Rashbrooke (ed) *Inequality: A New Zealand Crisis* (Bridget Williams Books, 2013) 55, 60.

<sup>67</sup> Bouchaud and Mézard, above n 8, 544.

<sup>68</sup> Wilkinson, above n 55, 143.

<sup>69</sup> See JE Meade, 'Poverty in the Welfare State' (1972) 24(3) *Oxford Economic Papers* 289, 322.

<sup>70</sup> Atkinson, above n 11, 217.

<sup>71</sup> See, for example, Nana, above n 66, 65.

<sup>72</sup> Atkinson, above n 11, 221.

inequality may incentivise workers and entrepreneurs in a capitalist economy<sup>73</sup> but it is difficult to see retaining 45 per cent at the margin as a disincentive.

Warnings are commonly encountered in New Zealand about the income tax burden borne by high income earners. (Krugman identifies reiteration of a similar message in the United States.<sup>74</sup>) Thomas Pippos, for example, observes that '2 per cent of the population ... already pay 22 per cent of personal income tax – the most tax per capita in absolute and relative terms.'<sup>75</sup> Under an income tax system with any degree of progressivity, those who earn the most income will pay an apparently disproportionate amount of income tax. But Pippos notes that the highest income tax earners are 'not the wealthiest New Zealanders, just those who can't fall outside of the rules – a segment of the upper middle class'.<sup>76</sup> The pressing issue is then whether community members with a similar ability to pay taxes as high salary earners do not do so because their income is crystallised and distributed as tax-free capital or otherwise sheltered from income tax. And so, without being distracted from the vertical equity of progressivity in income tax, serious attention should be paid to horizontal equity among the wealthy.

### **B. Taxing Capital**

New Zealand has an approaching fiscal crisis. Treasury predicts a tax yield deficit, by 2060, of six per cent of gross domestic product<sup>77</sup> – the equivalent in today's terms of the annual health budget.<sup>78</sup> How should this gap be filled? As noted, the belief is widely held in New Zealand that no more income tax should be levied against a small number of high salary earners. A comprehensive capital gains tax ('CGT') is broadly considered unattractive because of its perceived complexity.<sup>79</sup> Increases in goods and services tax (GST) will be self-defeating. Since GST is regressive, particularly in its pure form in New Zealand,<sup>80</sup> income transfers will be needed if rates continue to be increased.<sup>81</sup> Therefore the deficit can only be made good by taxes on capital in some form.

Book balancing is somewhat of a distraction from the key issue: the critical motivation for taxing capital is ideological. This article has sought to adduce supra-political reasons for interfering in wealth outcomes but, ultimately wealth distribution is a matter of political

---

<sup>73</sup> See, for example, Richard A Miller, 'From Macro to Micro: the Re-emergence of Efficiency Considerations in Economic Policy' in Alan Bollard (ed) *The Influence of United States Economics on New Zealand: The Fulbright Anniversary Seminars* (NZ-US Educational Foundation and New Zealand Institute of Economic Research, 1988) 34.

<sup>74</sup> See Paul Krugman, 'Our Invisible Rich' *The New York Times* (online) 28 September 2014) <[http://www.nytimes.com/2014/09/29/opinion/paul-krugman-our-invisible-rich.html?emc=edit\\_th\\_20140929&nl=todaysheadlines&nid=52727791&r=0](http://www.nytimes.com/2014/09/29/opinion/paul-krugman-our-invisible-rich.html?emc=edit_th_20140929&nl=todaysheadlines&nid=52727791&r=0)>.

<sup>75</sup> Thomas Pippos, 'Taxation as Political Football Ends in Own Goal', *Sunday Star Times* (New Zealand) 24 August 2014, p D11.

<sup>76</sup> Ibid.

<sup>77</sup> The Treasury, *Affording Our Future: Statement on New Zealand's Long-term Fiscal Position* (2013) <<http://www.treasury.govt.nz/government/longterm/fiscalposition/2013/affordingourfuture/lfts-13-aof.pdf>>.

<sup>78</sup> Geof Nightingale, 'A Tax on Capital is Coming', *Sunday Star Times* (New Zealand) 21 September 2014, p D11.

<sup>79</sup> See Tax Working Group, above n 36, 67.

<sup>80</sup> See David White and Richard Krever, 'Preface' in Richard Krever and David White (eds), *GST in Retrospect and Prospect* (2007) vii, viii.

<sup>81</sup> Tax Working Group, above n 36, 66.

values. As Nolan observes: 'Piketty is clear that he finds the idea of a future with large inherited wealth, and a clearer class-based grouping between individuals, to be morally abhorrent – and this is the real driver of his policy suggestion.'<sup>82</sup> Like Piketty, the current author supports a society based not only on substantive equal opportunities but also on equitable outcomes. This view is, of course, not universally shared. Thus Jonathan Boston observes that 'there is almost universal acceptance that equality matters. Yet there is no consensus on what *kind* of equality should be championed.'<sup>83</sup> For him, 'a strong commitment to substantive equality of opportunity raises important questions about how far these large inequalities of income and wealth should be tolerated'<sup>84</sup> and he concludes 'a relatively egalitarian distribution of resources ... will help ensure that all citizens are able to enjoy their basic rights and liberties, it will also lead to greater equality of opportunity and stronger sense of social equality.'<sup>85</sup> To reiterate, this author recognises that such a progressive vision is not universally held, but it does inform this article.

### C. Taxing Capital in New Zealand

The Liberal government (1890–1912) and the Labour government (1935–49) took significant strides against inequality (for European males, at least) through policies that included the levying of 'hefty' death duties.<sup>86</sup> But capital taxes have since been abolished: estate duty in 1992,<sup>87</sup> stamp duty in 1999,<sup>88</sup> and gift duty in 2011.<sup>89</sup> Furthermore, no general CGT is levied.<sup>90</sup> The only tax on capital in New Zealand is local rating.<sup>91</sup> However, as an equitable capital tax, rating is deeply flawed, since residential landlords bundle rates charges into rentals and pass the tax burden on to their tenants who may be the poorest members of society.

Simon Chapple argues that, because New Zealand is 'a small open economy that is not part of any functional supra-national entity ... we have severe policy limitations in terms of dealing with inequality at the top end, both of capital and income'.<sup>92</sup> Bertram also notes that the 'large component of the rent secured within New Zealand actually flow overseas, which limits the rate at which wealth accumulates within New Zealand' and 'taxation of rents and wealth, and other moves to expropriate rentiers, therefore, have an international dimension that policy even more difficult than in the core capitalist

---

<sup>82</sup> Nolan, above n 33, 126.

<sup>83</sup> Jonathan Boston, 'What Kind of Equality Matters?' in Max Rashbrooke (ed), *Inequality: A New Zealand Crisis* (Bridget Williams Books, 2013) 70, 84.

<sup>84</sup> Ibid, 85.

<sup>85</sup> Ibid.

<sup>86</sup> See Max Rashbrooke, 'Inequality in New Zealand' in Max Rashbrooke (ed) *Inequality: A New Zealand Crisis* (Bridget Williams Books, 2013) 20, 25. The first major national tax was an income and land tax: see *Land and Income Tax Assessment Act 1891* (NZ).

<sup>87</sup> See *Estate Duty Abolition Act 1993* (NZ).

<sup>88</sup> See *Stamp Duty Abolition Act 1999* (NZ).

<sup>89</sup> See *Taxation (Tax Administration and Remedial Matters) Act 2011* (NZ).

<sup>90</sup> At the time of writing, the government has announced proposals for taxing gains on sales of houses within two years of purchase: see English, above n 28. Rather than a specific CGT, this measure can be seen as an objective benchmark for speculation. Compare with the *Property Speculation Tax 1973* (NZ).

<sup>91</sup> Rates are either raised against the value of land or its improved value. The possible base of annual rental value is no longer used in practice. See *Local Government (Rating) Act 2002* (NZ), s 13(3).

<sup>92</sup> Chapple, above n 31, 37.

economies'.<sup>93</sup> These views seem unduly fatalistic. Piketty's global capital tax has been similarly dismissed as unworkable,<sup>94</sup> but, as he observes, '[a] global tax on capital is a utopian idea' but is one that may be attainable – '[s]tep by step, region by region, towards a progressive tax on capital'.<sup>95</sup> Robert Wade notes that the United States seeks to tax its citizens wherever they live and uses measures such as FATCA<sup>96</sup> to promote this.<sup>97</sup> Tax information exchange agreements can also assist with tracking citizens' offshore wealth. More generally, international agreement has been reached on various issues: human rights and free trade are, perhaps, the most unlikely and yet most broadly achieved areas of international cooperation. But in the current absence of a global capital tax, what should be done to tax capital?

The McLeod Report championed a risk-free return method (RFRM), calculated as follows: net asset value at the start of the year x statutory risk-free real rate of return x the investor's tax rate.<sup>98</sup> Susan St John has reiterated support for this proposal.<sup>99</sup> Gareth Morgan and Susan Guthrie propose a 'comprehensive capital income tax'.<sup>100</sup> Representing mainstream policy opinion, the Tax Working Group rejected both an RFRM and an annual capital charge; instead, the majority of members supported an annual land tax,<sup>101</sup> a proposal that was ignored by government. Certainly a low rate, annual land or wealth tax deserves greater consideration but the more pressing issue is the reinstatement of some form of wealth transfer tax.<sup>102</sup>

#### ***D. A Note on Radicalism and Political Plausibility***

Before turning to arguments for a capital acquisitions tax ('CAT') in the next part, some points on radicalism and political plausibility may be noted.

##### **1 Radicalism**

---

<sup>93</sup> Bertram, above n 4, 29.

<sup>94</sup> See, for example, Tyler Cowen, 'Capital Punishment: Why a Global Tax on Wealth Won't End Inequality' *Foreign Affairs* (online) May/June 2014 <<https://www.foreignaffairs.com/reviews/review-essay/capital-punishment>>; Allister Heath, 'Thomas Piketty's Bestselling Post-Crisis Manifesto Is Horrendously Flawed' *The Telegraph* (online) 29 April 2014 <<http://www.telegraph.co.uk/finance/economics/10796532/Thomas-Pikettys-bestselling-post-crisis-manifesto-is-horrendously-flawed.html>>.

<sup>95</sup> Piketty, above n 1, 515–6.

<sup>96</sup> Foreign Account Tax Compliance Act 26 USC §§ 1471–1474, § 6038D.

<sup>97</sup> Robert H Wade, 'Inequality and the West' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 155, 169.

<sup>98</sup> *Tax Review 2001* (Treasury, 2001) (Chair Robert McLeod) <<http://www.treasury.govt.nz/publications/reviews-consultation/taxreview2001/taxreview2001-report.pdf>>.

<sup>99</sup> Susan St John, 'Recalibrating New Zealand' in Geoff Bertram et al, *The Piketty Phenomenon: New Zealand Perspectives* (Bridget Williams Books, 2014) 144, 153

<sup>100</sup> See, generally, Gareth Morgan and Susan Guthrie, *The Big Kahuna: Tax and Welfare* (Public Interest Publishing, 2011).

<sup>101</sup> The Tax Working Group estimated that a 0.5 per cent annual land tax that would raise up to NZD2.3 billion or 10 per cent of income tax revenue: see Tax Working Group, above n 36, 45.

<sup>102</sup> For arguments in favour of a wealth transfer tax, see Jonathan Barrett, 'Wealth Transfer Tax Redux?' (2011) 17(3) *New Zealand Journal of Taxation Law and Policy* 389, 289–308.

The *Manifesto of the Communist Party* understandably called for the abolition of all rights of inheritance.<sup>103</sup> But Christian socialists, notably Richard Tawney,<sup>104</sup> also reasoned that a tolerably equal society could only be achieved by abolishing intergenerational transfers. Roberto Unger argued for the establishment of a rotating capital fund with a constant flow of new entrants and no consolidation of market position.<sup>105</sup> Before them, Thomas Paine argued that, on the one hand, substantial estates should be heavily taxed but, on the other hand, provision of a minimum inheritance should be made for everyone.<sup>106</sup> Likewise, Atkinson tells us that Cedric Sandford proposed a negative capital tax payable on attainment of adulthood, an idea taken further by Julian Le Grand.<sup>107</sup> Atkinson now floats the idea of the state acquiring 'beneficial ownership (not control) of productive capital and [using] the profits to share the benefits among all citizens ... Entitlement could be based on... participation in the society'.<sup>108</sup> The point made here is that a CAT is not a radical proposal, indeed, it may be considered timid and unambitious in the light of these other, possibly more effective ways of countering wealth inequality.

## 2 Political Plausibility

Skilling demonstrates that New Zealanders 'generally underestimate how much top income earners actually earn, and that they believe that those top earners *should* receive less than their erroneously low estimation'.<sup>109</sup> Similar perceptions and expectations have been observed elsewhere.<sup>110</sup> Because the poor do not socialise with the wealthy, comparisons are difficult to make. If you are wealthier or poorer than members of your social group, you might assume you are wealthy or poor in absolute terms. Such misunderstandings lead to political inertia.<sup>111</sup> Thus Paul Krugman observes that '[T]oday's political balance rests on a foundation of ignorance, in which the public has no

---

<sup>103</sup> See, Karl Marx and Frederick Engels, 'Manifesto of the Communist Party' in *Select Works* (Lawrence and Wishart, 1968) 35, 52.

<sup>104</sup> See, generally, RH Tawney, *Equality* (G Allen & Unwin, 1931).

<sup>105</sup> Roberto Mangabeira Unger, *The Critical Legal Studies Movement* (Harvard University Press, 1986) 35.

<sup>106</sup> Thomas Paine, 'Agrarian Justice' Social Security Agency <<http://www.ssa.gov/history/paine4.html>> cited by Atkinson, above n 11, 219. Paine also proposed a top income tax rate of 100 per cent: see Martha C Nussbaum, *Creating Capabilities: the Human Development Approach* (The Belknap Press of Harvard University Press, 2011) 139.

<sup>107</sup> Anthony B Atkinson, *Inequality: What Can Be Done?* (Harvard University Press, 2015) 169. See also Patrick Diamond and Anthony Giddens, 'The New Egalitarianism: Economic Inequality in the United Kingdom' in Anthony Giddens and Patrick Diamond (eds), *The New Egalitarianism* (Polity Press, 2005) 101, 117 on hypothecating revenues from a capital accretions tax 'to the funding of a universal capital grant scheme ... [which] would strengthen the perceived legitimacy of taxing concentrations of wealth'.

<sup>108</sup> Atkinson, above n 11, 220.

<sup>109</sup> Skilling, above n 30, 39.

<sup>110</sup> 'More than 80 percent of the wealth in the United States belongs to 20 percent of the population; respondents estimated that this group held less than 60 percent of the wealth, and would in an ideal world hold about a third.' See Elizabeth Gudrais, 'What We Know about Wealth' *Harvard Magazine* (November-December 2011) <<http://harvardmagazine.com/2011/11/what-we-know-about-wealth>>.

<sup>111</sup> In its United Kingdom survey, the Fabian Society's Commission on Taxation and Citizenship found that 51 per cent of respondents thought that inheritance tax should be abolished and only two per cent supported taxing all inheritances; cited in Will Hutton, *Them and Us: Changing Britain – Why We Need a Fair Society* (Little, Brown, 2010) 302–3.



idea what our society is really like.<sup>112</sup> Concluding his analysis of the United Kingdom's Labour government's retreat from a proposed wealth tax in the 1970s, Howard Glennerster cautions: 'If any new move to tax wealth is to be successful it will only be so if the public, many of whom are now holders of modest wealth, are convinced that its unequal distribution is 'a problem'.<sup>113</sup> *Capital* has made a significant contribution to inequality being recognised as 'a problem'.

#### IV FOR A CAT

Current equality concerns are motivated by a desire to ensure everyone might enjoy opportunities to fulfil their promise as human beings. Martha Nussbaum encapsulates this capacities approach thus: 'What is each person able to do and to be'.<sup>114</sup> The critical question is, then, which type of tax on capital transfers is most consistent with promotion of full human flourishing.

Robert Wade quotes Margaret Thatcher's paean to inequality: 'It is our job to glory in inequality and see that talents and abilities are given vent and expression for the benefit of us all.'<sup>115</sup> A society which enables people with, say, extraordinary entrepreneurial skill to realise their potential does not have to be a society that grants those people full liberty to pass their wealth to their chosen beneficiaries if negative consequences arise for the rest of society. Neither Marx nor Tawney sought equalisation of incomes;<sup>116</sup> it was undeserving inheritance by the next generation which was unacceptable to them.

Inheritances have historically constituted the principal determinant of wealth accumulation,<sup>117</sup> with between 35 and 45 per cent of wealth being inherited.<sup>118</sup> It is implausible, then, that wealth inequality might be countered 'without some limitation on the intergenerational transmission of wealth'.<sup>119</sup> However, as Nolan observes, '[T]he question of inheritance, and what is a fair kick-start for children is an emotive one'.<sup>120</sup> In the conservative view, a person has 'unqualified rights over their own property' and amassing heritable wealth 'is a powerful incentive and a natural right'.<sup>121</sup> Conversely, some very wealthy people believe that excessive bequests benefit neither the inheritors nor society. The steely, republican resolve of self-made American moguls, such as Bill

---

<sup>112</sup> Krugman, above n 74.

<sup>113</sup> Howard Glennerster, 'Why Was a Wealth Tax for the UK Abandoned? Lessons for Policy Process and Tackling Wealth Inequality' (2012) 41(2) *Journal of Social Policy* 233, 247.

<sup>114</sup> Nussbaum, above n 106, 18.

<sup>115</sup> Wade, above n 97, 39.

<sup>116</sup> See Brown, above n 38, 342 for a discussion.

<sup>117</sup> Laurence J Kotlikoff and Lawrence H Summers, 'The Role of Intergenerational Transfers in Aggregate Capital Accumulation' (1981) 89 *Journal of Political Economy* 706, 730.

<sup>118</sup> Tomer Blumkin and Efraim Sadka, 'Estate Taxation, with Intended and Accidental Bequests' (2004) 88 *Journal of Public Economics* 1, 2.

<sup>119</sup> Cedric Sandford, 'Taxing Wealth' in Cedric Sandford (ed), *More Key Issues in Tax Reform* (Fiscal Publications, 1995) 58.

<sup>120</sup> Nolan, above n 33, 130.

<sup>121</sup> Hutton, above n 111, 302.

Gates and Warren Buffett,<sup>122</sup> not to give their children exceptional financial inheritances above other members of the republic may, however, be considered unusual.

Transfer of excessive wealth to the next generation is 'morally indefensible' because it is arbitrary and disproportionately impacts on opportunities.<sup>123</sup> Some people are fortunate to be endowed with extraordinary genetic inheritance but they still need to put their own effort into leveraging their gifts into wealth.<sup>124</sup> Inherited wealth is different: it is a manifestation of 'brute luck',<sup>125</sup> an unmerited advantage which distorts equality of opportunity among community members. It also interferes with Thatcherite meritocracy, since it privileges qualities other than unequal talents and abilities. Transfer of wealth may also be economically inefficient. Thus Randall Morck and his co-authors conclude:<sup>126</sup>

*the ownership structure of a country's capital matters. Economic growth depends, not just on the stock of physical capital, but also on who controls it. We find that entrenched family control of a nation's capital is correlated with lower rates of economic growth while billionaire entrepreneurs' control of capital is correlated with higher rates of economic growth.*

Being 'normally unrelated to the merit, effort or enterprise of the recipient',<sup>127</sup> inheritances are eminently taxable. A tax on inheritances 'strikes at the heart of the problem of inequality, for it is large inheritances, not large estates as such, that perpetuate inequality'.<sup>128</sup> As Robin Boadway and his co-authors conclude, the transferee of wealth and not the transferor is the proper subject of taxation.<sup>129</sup>

If Robert Haig's definition of income as the 'money value of the net accretion to one's economic power between two points of time'<sup>130</sup> is followed, bequests should be included in a person's annual income.<sup>131</sup> Indeed, the United States income tax of 1894 did include

---

<sup>122</sup> See, for example, Michelle Nichols, 'Warren Buffett, Bill Gates Ask Billionaires to Give Away Wealth' *Reuters* (online) 16 June 2010 <<http://www.reuters.com/article/2010/06/16/us-philanthropy-buffett-gates-idUSTRE65F5CC20100616>>.

<sup>123</sup> David G Duff, 'Taxing Inherited Wealth: A Philosophical Argument' (1993) 6 *Canadian Journal of Law and Jurisprudence* 3, 50.

<sup>124</sup> Hutton, above n 111, at 75 refers to making one's own luck or taking advantage of good fortune as 'circumstantial or option luck'.

<sup>125</sup> Patrick Diamond and Anthony Giddens, 'The New Egalitarianism: Economic Inequality in the United Kingdom' in Anthony Giddens and Patrick Diamond (eds) *The New Egalitarianism* (Polity Press, 2005) 117.

<sup>126</sup> Randall K Morck, David A Strangeland and Bernard Yeung, 'Inherited Wealth, Corporate Control, and Economic Growth: The Canadian Disease?' in Randall K Morck (ed) *Concentrated Corporate Ownership* (University of Chicago Press, 2000) 319, 362.

<sup>127</sup> Sandford, above n 119, 58.

<sup>128</sup> *Ibid*, 65.

<sup>129</sup> Robin Boadway, Emma Chamberlain and Carl Emmerson, 'Taxation of Wealth and Wealth Transfers' in James Mirrlees et al (eds) *Dimensions of Tax Design: The Mirrlees Review* (Oxford University Press, 2010) 790. Compare with the Henry Report, while refraining from recommending a bequest tax (essentially an estate tax), concluded that such a tax would meet the Panel's requisite criteria of efficiency, equity, simplicity and sustainability. See *Australia's Future Tax System Review Panel Australia's future tax system: Report to the Treasurer – Part One: Overview* (2009) 37.

<sup>130</sup> Robert Murray Haig, 'The Concept of Income' in Robert Murray Haig, Thomas Sewall Adams and Thomas Reed Powell (eds) *The Federal Income Tax* (first published 1921, BiblioBazaar, 2009) 7.

<sup>131</sup> Liam Murphy and Thomas Nagel, *The Myth of Ownership: Taxes and Justice* (Oxford University Press, 2005) 159.

inheritances as taxable income.<sup>132</sup> However, as Nicholas Kaldor notes, it is intuitively unfair to tax 'the man who once in a life time receives £10,000 in the same way as the man who receives £10,000 every year'.<sup>133</sup> So, rather than including bequests as income, a CAT seems preferable. In *Inequality: What Can Be Done?*, his response to Piketty, Atkinson makes ten policy recommendations, including a lifetime capital receipts tax that is, 'the taxation at progressive rates of the total received over a person's lifetime in bequests and gifts'. Ireland already has such a tax. Its capital accession tax applies a single rate of 33 per cent to accumulated gifts and inheritances over the relevant class threshold.<sup>134</sup> Such a tax both limits a person's right to acquire unmerited wealth by bequests and achieves a more equal distribution of wealth.<sup>135</sup> As Meade observes, a CAT 'penalises wealth received by gift or inheritances but not wealth accumulation by the recipient from his own effort and savings'.<sup>136</sup>

## V CONCLUSION

This article has considered *Capital* in the New Zealand context. The book's precise applicability to a small, open economy and the technical accuracy of Piketty's method are irrelevant. The great virtue of *Capital* lies in its highlighting the issue of inequality and capital taxation for politicians and policymakers. Rather than eclipsing the decades of inequality research of people such as Meade and Atkinson, it has ideally created a greater 'market' for their ideas. In New Zealand, as in other OECD countries, we do not need deep data analysis to demonstrate to us that inequality is rife among generations, ethnic groups and regions; the evidence is in our midst.

Equalisation of wealth is neither consistent with human nature nor a capitalist economic system.<sup>137</sup> But, if everyone is to enjoy full opportunities to experience full human flourishing, wealth needs to be distributed more fairly and the sensible way to deal with disproportionate wealth is to limit inheritance through taxation, not to unduly discourage effort and enterprise.<sup>138</sup> Thus Atkinson tells us that:<sup>139</sup>

*progressive taxation of capital income, or of wealth, or of the transfer of wealth all contribute, through reducing the effective savings rate of the rich, to narrowing the gap between the rich and the less wealthy. They may or may not reduce the amount of inheritance but they definitely reduce the inequality of inheritance. The taxation of wealth and its transfer are central to this aspect of redistribution.*

---

<sup>132</sup> Gerald R Jantscher, 'Death and Gift Taxation in the United States after the Report of the Royal Commission' (1969) 22 *National Tax Journal* 121, 126 n 23.

<sup>133</sup> Nicholas Kaldor, *An Expenditure Tax* (George Allen & Unwin, 1955) 203.

<sup>134</sup> Significantly, the rate was increased from 20 per cent in 2012: see *Capital Acquisitions Tax Consolidation Act 2003* (Ireland) and Irish Tax and Customs, 'Capital Acquisitions Tax' <<http://www.revenue.ie/en/tax/cat/>>.

<sup>135</sup> Richard A Musgrave and Peggy B Musgrave, *Public Finance in Theory and Practice* (2nd ed, McGraw-Hill, 1976) 359-360; see also Richard A Musgrave, 'Growth with Equity' (1963) 53(2) *American Economic Review* 323, 327 on equality and accretion.

<sup>136</sup> Meade, above n 7, 202 n 5.

<sup>137</sup> JK Galbraith, *The Good Society: The Humane Agenda* (Sinclair-Stevenson, 1996) 59.

<sup>138</sup> Kaldor, above n 133, 100.

<sup>139</sup> Atkinson, above n 11, 220.