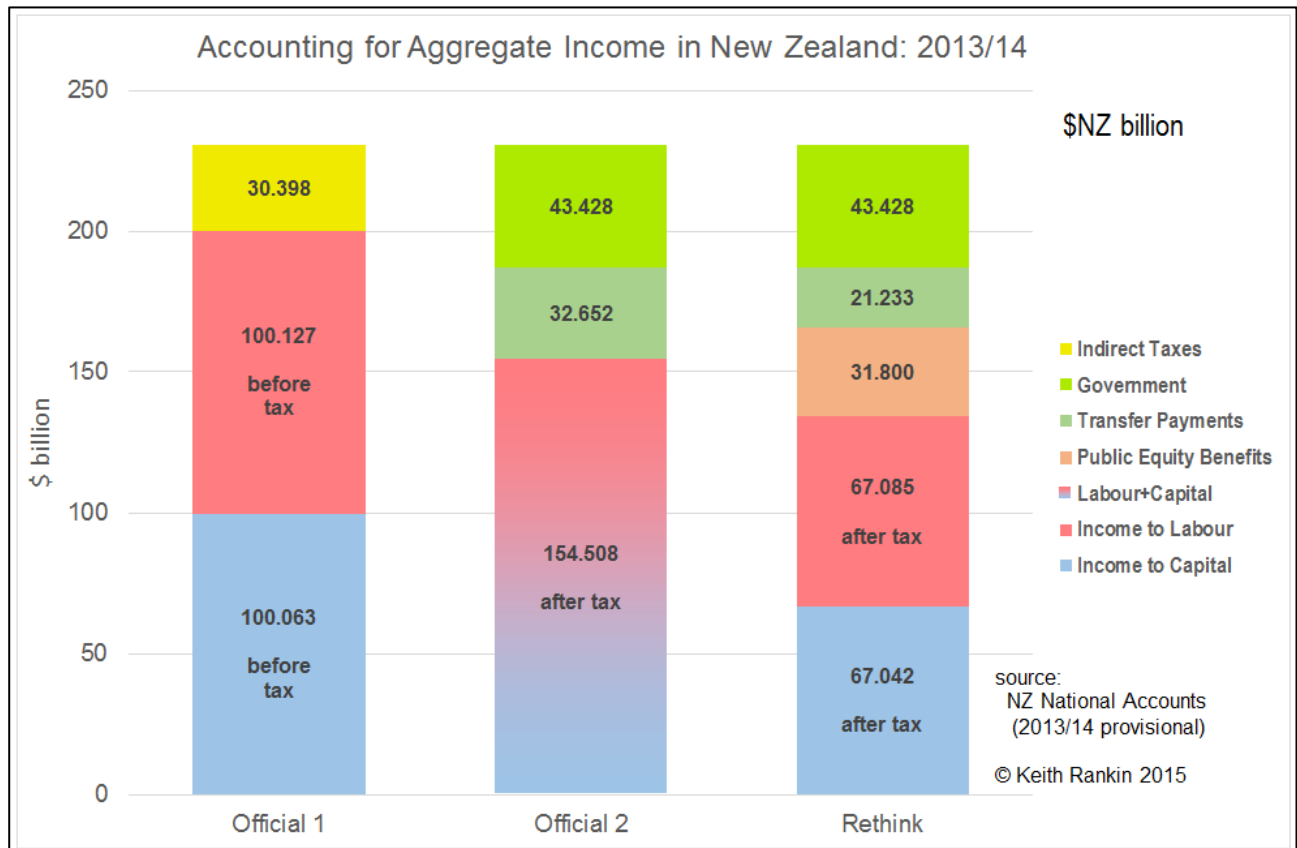


# Chart for this Week: New Zealand Income Shares 2013/14

Keith Rankin, 21 October 2015



## [Rethinking Income-Share Accounting](#)

The System of National Accounts was developed to support the Keynesian state that emerged after the 1930s' global 'Great Depression'. One of the system's weaknesses is that it conceals rather than reveals the public shares of national income.

In particular it regards some public income (indirect taxes) as 'primary' and other public income as 'secondary'. Secondary public income is treated in the accounts as transfers from individuals to the government, whereas primary income is treated as the governments as of right. This distinction persevered, even after the introduction of PAYE in New Zealand in 1958, through which the government's share of income was deducted at source.

The first column of the chart gives a literal interpretation of the provisional 2014 national accounts. The labour and capital shares are accounted before tax, and are almost equal to each other at just over 100 billion dollars each. The remaining share is 'government primary income', namely indirect taxes, most of which is GST (goods and services tax).

When we re-attribute income tax, the larger part of the public income share, the official accounts give us the second column of the chart. This is 76 billion dollars in total, almost exactly a one-third share. It is not possible to determine, on this basis, the separate after tax shares to capital and to labour. The second column of the chart gives a total private income share after tax of 154.5 billion dollars. We can now split the government share into a 'government spending' component (\$43.4b), and a 'redistribution' (transfer) component (\$32.7b).

The problem remains that tax rates are quite arbitrary. Benefits (eg transfers) can be paid through the tax system (IRD; Inland Revenue) as well as through Work and Income. In particular implicit 'tax benefits' are paid by discounting income taxes – in gradations – for lower levels of pre-tax personal income.

The "rethink" approach simply sets a core rate of income tax, noting that in New Zealand that rate is 33 percent (the present trust rate and top personal rate). Thus we calculate the true capital share of income by reducing the gross capital share (about \$100b) by 33 percent, leaving a true capital share of 67 billion dollars. We do the same for the labour share, also yielding \$67b. This leaves a 'gross' public share of \$96.5b, 41.8 percent of aggregate income.

The most important accounting innovation in the rethink is that most of the aforementioned 'tax benefits' and a good part of the 'transfer payments' are re-accounted for as public equity benefits.

The result is that we have three designations of public revenue. First is income required by government to make its purchases and to service public debt. At the other end of the public scale we have universal 'public equity benefits' which are distributed as of right to 'economic residents'. (I prefer the term 'economic residents' to 'citizens', which as we see in Australia can be a somewhat exclusive concept. And I exclude children, who should not be considered 'economic' residents.) The conceptual principle here is 'horizontal equity', treating equal economic residents equally.

In the middle of the public scale are 'redistributive transfers' which include payments on the basis of need. These are 'targeted' cash payments, which tend to focus on the needs of the young, the old, as well as other persons with particular needs. These payments reflect the principle of 'vertical equity', treating unequals unequally. With proper rethought accounting in place, the extent of these transfers would be significantly less than the accounts show it to be at present.

In the 'rethink' accounting model, all except core government spending represents household (private) disposable income. The transfer component also reflects public policy decisions about who is entitled to what. This would place \$64.7b under the control of government agencies directly, and Treasury indirectly.

In the case of the 'public equity dividend' component share, the IRD is a mere conduit. Treasury is not involved. No government agency has control. This is publicly-sourced private income. It is neither 'government income' nor 'state income'. It is private income.

If the simplified rethink accounting approach will be adopted, the adjustments around the edges can be ironed out as a matter of 'common sense' public policy. Then, the 'public equity benefits' would become 'public equity dividends', an **equal** distribution of public equity benefits to all economic residents.

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