

Social welfare benefits and economic performance

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Impacts on economic performance via:

- **Consumption** smoothing
'tax when earning; subsidy when not earning')
- **Redistribution**
'earners pay tax; non-earners (low-earners) receive subsidy')
- **Incentives** – trade-offs between paid work / home work / leisure. Depends on
 - replacement rates; effective tax rates; system *design*
- **Financing** – deadweight costs of taxes required to fund benefit levels
 - tax costs rise *more than proportionately* with benefit levels
- **Macroeconomic effects** – how do welfare expenditures (and taxes) affect GDP growth?
- **Migration** – is trans-Tasman migration affected?

Redistribution: how much?

- How much redistribution is possible?
 - Depends on benefit recipients', and taxpayers', responses ...
- How much redistribution is desirable?
 - there is no right answer ... depends on value judgements



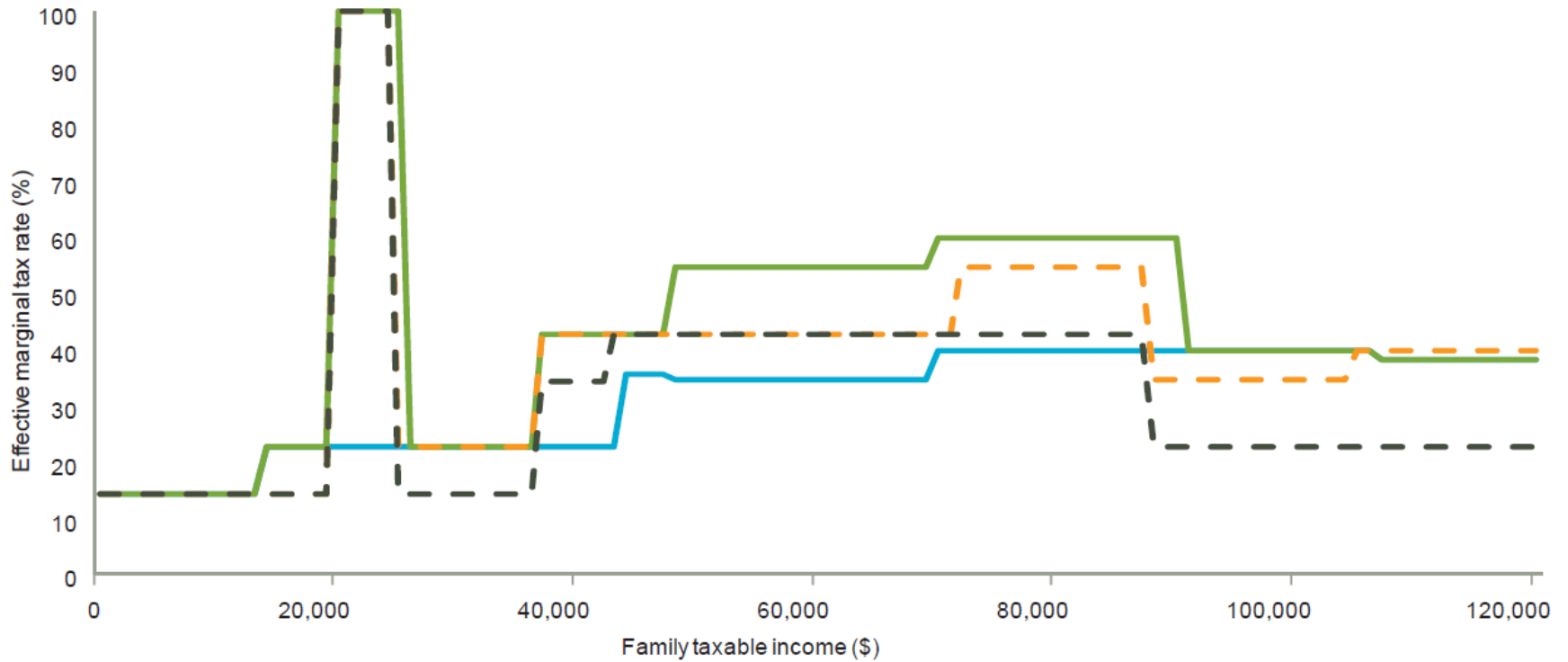
Redistribution: how much?

Who pays income tax... and how much?

Annual individual taxable income (\$)	Number of people		Tax paid	
	(000)	%	(\$m)	%
Zero	241	7	0	0
1 - 10,000	448	14	257	1
10,000 - 20,000	819	25	1,675	7
20,000 - 30,000	407	12	1,624	7
30,000 - 40,000	375	11	2,290	10
40,000 - 50,000	316	10	2,612	11
50,000 - 60,000	236	7	2,601	11
60,000 - 70,000	167	5	2,451	11
70,000 - 80,000	83	3	1,468	6
80,000 - 90,000	67	2	1,447	6
90,000 - 100,000	40	1	1,008	4
100,000 - 150,000	72	2	2,482	11
150,000+	46	1	3,415	15
All	3,317	100	23,330	100

46% (bracketed around 14%, 25%, 12%)
 8% (bracketed around 1%, 7%, 7%)
 9% (bracketed around 3%, 2%, 1%)
 42% (bracketed around 6%, 6%, 4%, 11%, 15%)

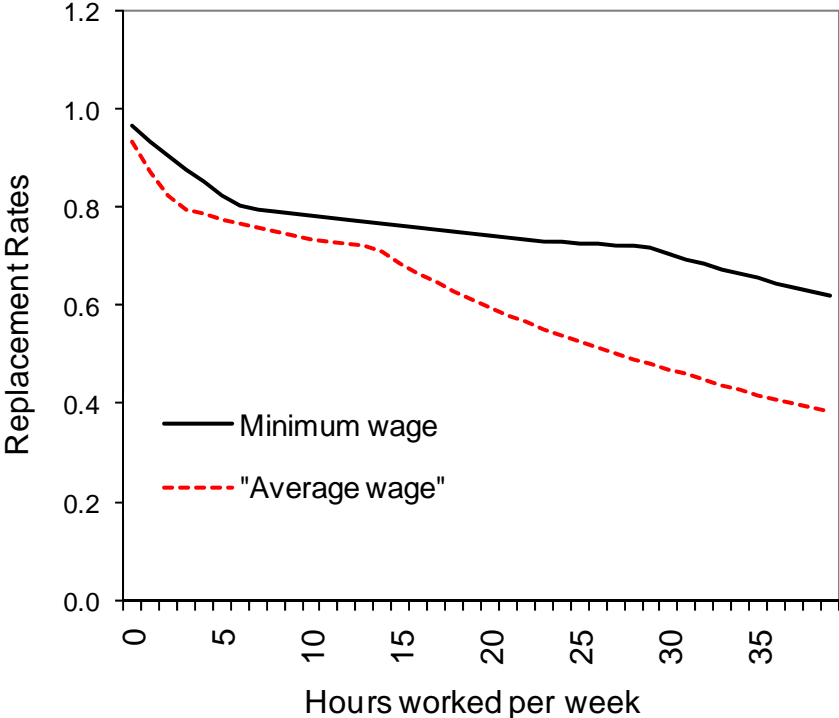
Incentives: effective marginal tax rates



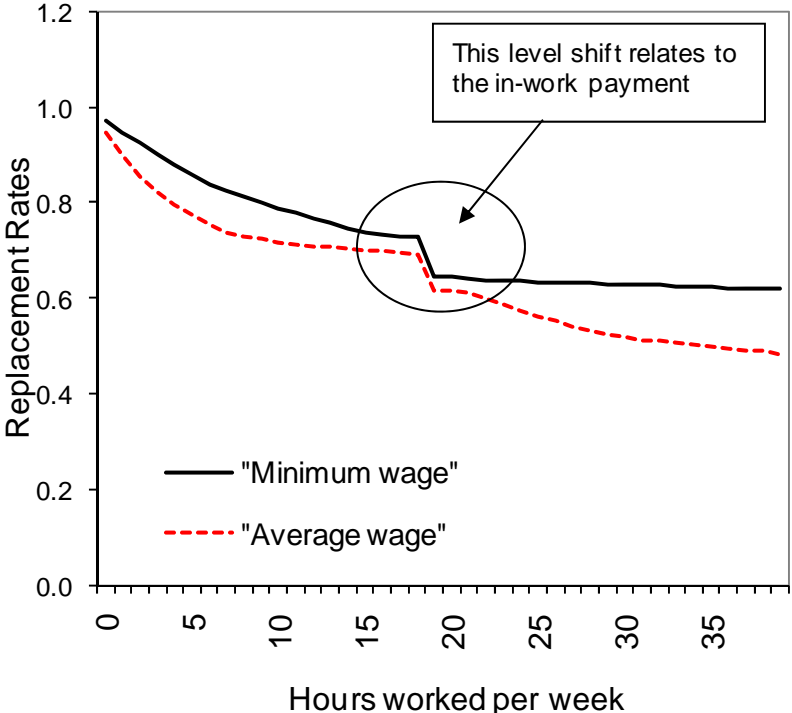
— One-earner family with children - - Two-earner family with children (secondary earner)
— Single no children - - Two-earner family with children (primary earner)

Incentives: UB & DPB Replacement rates

UB, 2008



DPB, 2008

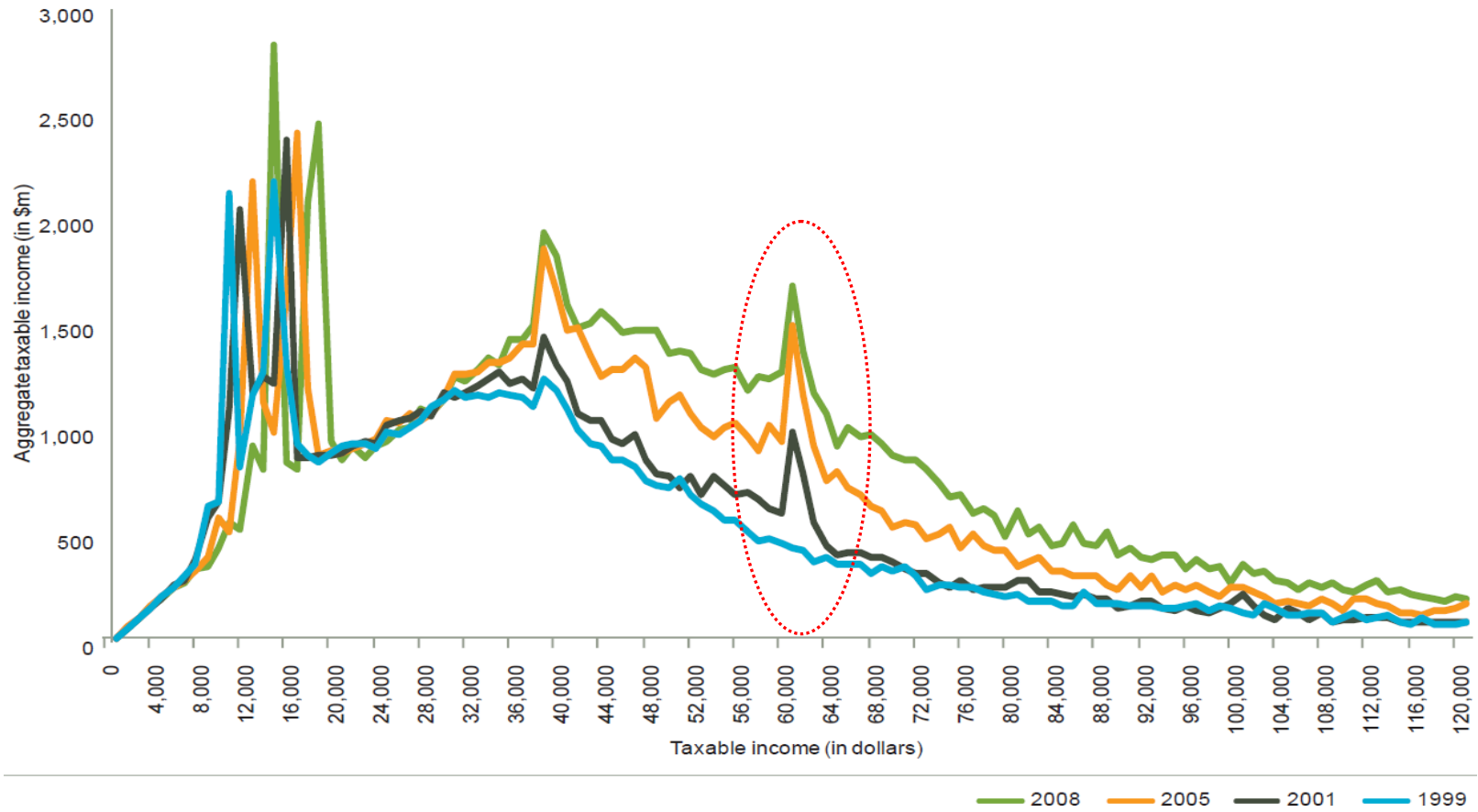


Incentives: International replacement rates pensions as % of average male earnings

- Some countries use 'flat-rate' system so low-earners get a higher fraction in retirement ...

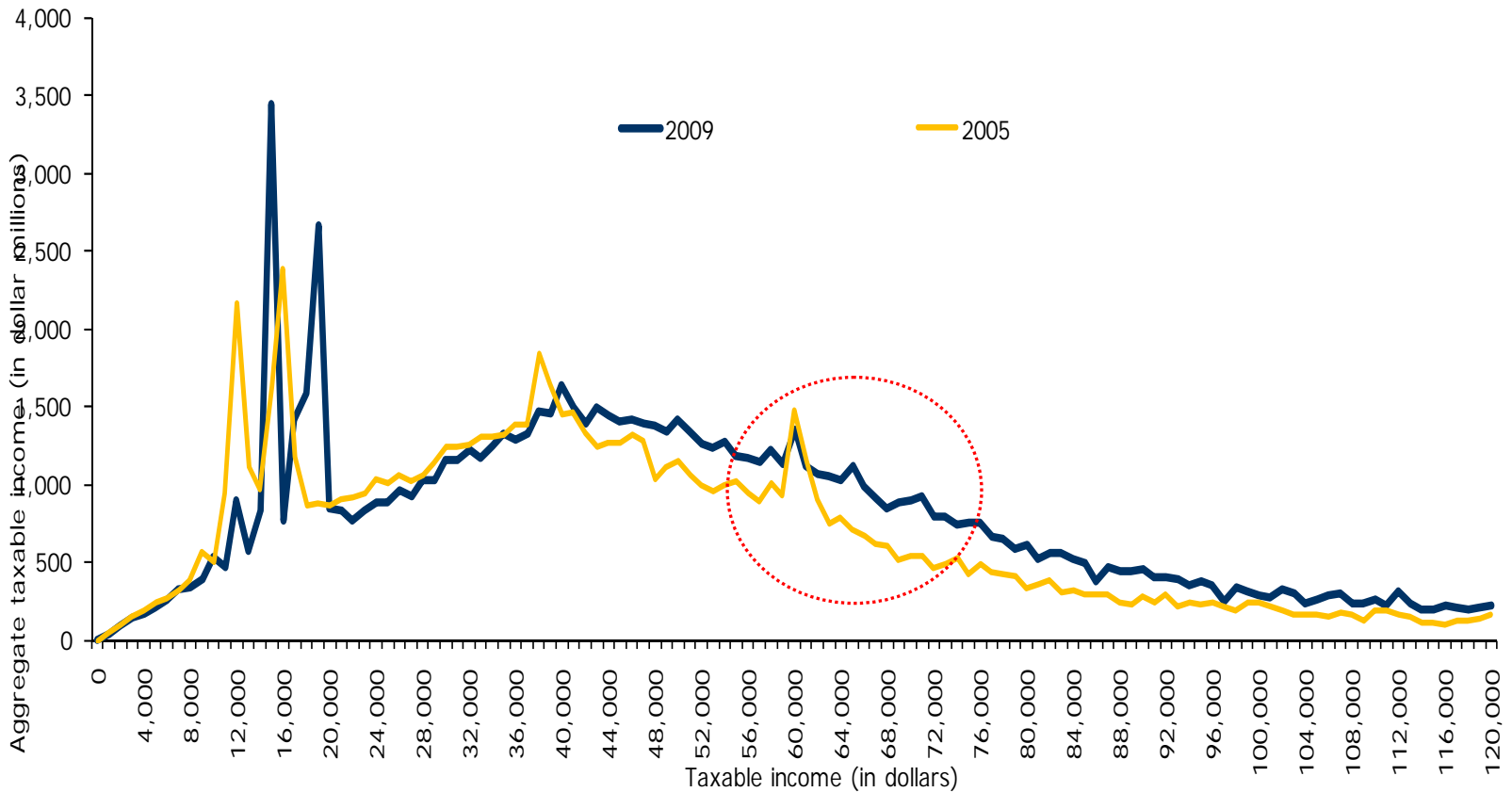
	Pension as a percentage of male average earnings for		
	Someone on half average earnings	Someone on average earnings	Someone on twice average earnings
Canada	50%	51%	51%
France	48%	95%	165%
Germany	34%	72%	150%
Italy	32%	82%	192%
Netherlands	41%	41%	41%
New Zealand	38%	38%	38%
UK	25%	34%	48%
US	32%	55%	64%

Taxpayers (Benefit recipients?) respond to incentives



Note: The data for the year ended March 2008 is incomplete.

Taxpayers (Benefit recipients?) respond to incentives



Note: The data for the year ended 2009 is at November 2009 and incomplete. The 2009 data is substantially incomplete
Source: Policy Advice Division, Inland Revenue

Financing: deadweight costs of taxes?

- Distortionary costs: value on changes to behaviour due to the tax (that otherwise would be less preferred)
- Deadweight costs approximately quadruple as the tax rate doubles
- Few deadweight costs estimates for NZ but some plausible values suggest (for each \$ of tax collected):

Response to 38% tax rate:	low	high
Income diverted to avoid all tax	\$0.65	\$1.43
Income diverted to 30% company tax rate	\$0.09	\$0.14

Macro effects of taxes and welfare spending

- Is social welfare good for growth?
- How is it financed?

