Flat Tax in New Zealand: Unemployment and Social Security Taxes 1930-70

paper by

Keith Rankin

Unitec Institute of Technology

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> (New Zealand Official Yearbook 1939)

Introduction

With the concept of a Universal Basic Income (UBI) being mooted this year as an important reform that can facilitate our adaption to a flexible work-world characterised by short-term contracts, inequality and automation, it becomes instructive to investigate historical precedents. In particular, unconditional income (including negative income tax) solutions are linked – at least in economists' minds – to a flatter (if not flat, ie proportional) income tax structure.

The practical reconceptualisation and reform of income tax and benefits that I would argue for is indeed a proportional income tax, initially set at 33 percent, coupled with a minimum publicly-sourced personal credit set initially at $175 per week ($9,080 per year).[1] Such a 'basic income flat tax' schema adapts easily to New Zealand's present tax and benefits levels, and will be affordable in the near future if not already. It would allow many people – especially young people – on benefits, student allowances or low wages to bypass the Work and Income bureaucracy and get on with their lives, leaving Work and Income to focus on addressing specific needs and deprivation, and allowing sole parents to benefit directly from Child Support agreements or impositions.

In this paper I investigate the flat (sometimes 'flattish') income tax that existed, under various names, between 1930 and 1970. Initially an 'unemployment tax' (the mainstay of an Unemployment Fund), in 1936 it was repackaged as an 'employment promotion tax'. Then in 1938 it was boosted and further repackaged as a 'social security tax' (with its associated Social Security Fund). From the outset, the social security tax came to be closely associated in the public mind with the universal superannuation benefit that commenced in 1940 at a modest £10 ($20) per year. This new benefit co-existed with the means-tested age-benefit, then £78 per year. The mechanism set in the 1938 Social Security Act was that the superannuation benefit would increase by £2.5 each year until it reached the level of the age-benefit, at which point the universal superannuation would displace the age-benefit for persons over 65. However, there was no explicit provision for inflation-indexing in the legislation. Inflation had not been a problem in the 1920s and 1930s, but would become so from the 1940s and most of all in the 1950s.

The story shows the importance, for reform, of building on (and nudging) what fiscal mechanisms are already in place. For its own policy purposes, the 1935-49 Labour Government adapted the non-contributory funding mechanism introduced by the 1891-1912 Liberal

[1] Rankin (2016b) lays out this adaptive proposal.

Government,[2] and enlarged the Unemployment Fund introduced by the conservative Forbes' minority government in 1930.

The universal superannuation, when legislated for, was clearly understood as a retirement demogrant, rather than as an as a consolation for those who did not qualify for an age benefit. For example, the 1939 Official Yearbook states:

> In the case of a person receiving superannuation benefit under the Act, the amount of superannuation benefit will form part of the age-benefit – e.g., a person entitled to a superannuation, benefit of £10 per year and to the full age-benefit would receive £68 per year age-benefit, making £78 per year in all.[3]

Subsequently however the two were considered to be alternative benefits – rather than the means-tested age benefit being a top-up of the universal superannuation benefit – presumably for administrative reasons. (I have not found any evidence for a philosophical shift in the language describing the relationship between the two benefits.) In the original conceptualisation, age beneficiaries would have been double-counted as both superannuitants and age beneficiaries. The 1940 Yearbook states:

> A superannuation benefit is not payable in addition to any other benefit. For example, a superannuation benefit and an invalid's benefit cannot be paid to the one person. Similarly, a superannuation benefit and an age-benefit are not payable to the one person. If a beneficiary in receipt of a superannuation benefit is later granted an age-benefit, the maximum benefit payable is £78, the amount of the superannuation benefit being merged in the amount of the age-benefit granted.

While a Universal Basic Income is a demogrant payable at age 18 (for example) rather than 65 (as Universal Superannuation was), an important difference is that, with a UBI it is the current beneficiaries who pay the tax that funds the benefit. With the Universal Superannuation most of those paying the tax would be future rather than current beneficiaries of the benefit. Thus the Social Security Fund, from which Superannuation and other benefits were paid, held the illusion of being a contributory (savings) fund. In reality it was a simple 'pay-as-you-go' account, just like the government's principal revenue account, the Consolidated Fund.[4] The

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[2] In the three-party 1928-31 Parliament, Forbes' United Party (with about 40 percent support) – the conservative vestige of the Liberal Party that ruled a generation earlier for two decades – had initially aligned with Labour. The relationship proved incompatible – especially as United leader Joseph Ward ailed and subsequently died in office. Ward's successor, Forbes, turned to the Reform Party for support. Forbes became both Prime Minister and Minister of Finance, despite the presence in Reform of two people much better qualified for the Finance Role: William Downie Stewart jnr., and Gordon Coates.

[3] In this conceptualisation, the universal benefit forms the 'horizontal-equity' platform, and the vestigial age-benefit represents the 'vertical-equity' superstructure. The anticipation was that the vestige would quickly shorten, and would disappear entirely in 1966. In this vein, one can also imagine the flat tax as sub-structure, with the graduated income tax being the overlay; that idea never took hold, however, not helped by partial exemptions on female and, later, teenage income recipients (NZOYB 1936).

[4] There was no attempt at deception on this matter. Nevertheless, with most of the unimplemented welfare proposals between 1898 and 1938 being based on contributory insurance principles, conservative minds (including working-class minds) were prone to the interpretation that social security contributions were

origins of pay-as-you-go (non-contributory) social security funding date back in New Zealand to the first 'old-age benefit', introduced by the Liberal Government in 1898.

Tables (and charts derived from these tables) at the end of this paper document the life course of the social security income tax, and the monetary benefits paid for the greater part from that tax.

Unemployment and Employment Promotion Tax

In December 1930, this emergency tax began its life as a fixed annual levy of £1.5 (payable quarterly); essentially a poll-tax (NZOYB 1932). With "certain exceptions", all males over twenty years-old would pay this fixed amount. The proceeds went into an 'Unemployment Fund', from which depression relief workers would be paid. From August 1931, it was replaced by a reduced levy (£1) combined with an 'emergency unemployment charge' set at 1.25 percent "of wages (other than those of domestic servants in private homes and of relief workers employed by public authorities but with their wages wholly borne by the Unemployment Fund) and of incomes received from other sources by all males not wholly exempt from the levy and by women with incomes of £250 or over (from any source)" (NZOYB 1932). The 'emergency unemployment charge' represents the genesis of New Zealand's flat income tax.[5]

As the Depression deepened further in 1932, the emergency unemployment charge was raised to five percent, and the annual exemption on non-labour female incomes was reduced to £20 (NZOYB 1933):

> In 1932 the emergency unemployment charge was altered to 1d. for every 1s. 8d. of wages, &c., and in the case of income of women other than from salary or wages was made applicable to the portion of such income in excess of £20 per annum.

Further changes took place in 1934 (NZOYB 1936):

> From 1st October, 1934, the emergency unemployment charge was reduced to l d. for every 2s. or part thereof, and from 1st October, 1935, to 1d. for every 2s. 6d. or part thereof. An amendment passed in November, 1934, exempted persons under twenty from tax on earned income. Women under twenty; women in receipt of pensions; and men of sixty-five, or women of sixty upwards, or permanently disabled persons whose incomes (in all cases) are under £105 are exempted from the tax on unearned income. Natives (male and female) of twenty years or over are required to pay tax on unearned

premiums rather than taxes, accruing compound interest in financial markets, and to be paid out eventually to qualifying beneficiaries. (The proposal to start at just £10 per year and raise the superannuation benefit annually further reinforced the interpretation that this was an accumulating savings' fund.) The novelty of the fund, as thus understood, was that it would be social (no individual accounts, as in 21st century KiwiSaver). It acknowledged the unpaid economic contributions of not only women but also those who had been unemployed for no fault of their own. The fund, inasmuch as it was linked to universal benefits, was not associated with redistribution, as a flat tax associated with a UBI would have been considered.

[5] However, inasmuch as some payers of the new tax enjoyed some level of exemption, then the tax was not a pure flat tax. Nevertheless it was, in its essence, a proportional income tax.

income in the same way as if Europeans. The exemption of women in respect of unearned income was increased from £20 to £50."

When reconceived in 1936 by the newly-elected Labour Government as an 'employment promotion tax', there was no mention of exemptions being removed or added. The Yearbook simply reports that "the proceeds of the employment promotion taxation introduced in 1930–31 are paid direct into the Employment Promotion Fund" (NZOYB 1937).

With the post-depression recovery well underway in 1936, the newly-elected Labour Government could have simply abolished the unemployment tax, and wound down the Unemployment Fund. Instead it renamed the tax (and associated fund), essentially because it would be useful for the promised pension reform that they would be judged on in 1938. In the meantime – which was longer than it might have been due to a fascinating and prolonged political process (Hanson 1930) – the unemployed became job-seekers. Accentuate the positive.

The relatively minor Pensions Amendment Act was introduced and passed in 1936, ensuring the ongoing relevance of the fund and the tax. It liberalised conditions on age benefits, and introduced pensions for invalids and "deserted wives" (Labrum p.407). It also ensured an ongoing relevance for the former 'emergency unemployment' tax.

In 1939: "The Employment Promotion Act of 1936" was "superseded by the Social Security Act of 1938", providing "for a social-security contribution – at an increased rate and *with a wider scope* [added emphasis] – to take the place of employment promotion taxation." The new tax would be closer to a pure flat tax than its predecessor (NZOYB 1940).[6]

[6] from NZOYB 1941:

"The Social Security Act, 1938. and regulations under it, require every person of the age of sixteen years or over to furnish annually a declaration of income (other than salary or wages) for the year ended 31st March. The requirements of the Act cover both males and females, and Maoris as well as Europeans, but omit persons receiving total disability war pensions. Part II of the declaration comprises a statistical questionnaire on which is required to be shown the total income of the individual, including salary or wages, and the data quoted hereunder are derived from these statements for the year ended 31st March. 1939. The income dealt with, therefore, is the income from all sources.

"This information is of particular interest in that it extends to all persons of sixteen years of age or over, irrespective of the size of the income, and therefore gives an indication of the relative distribution of incomes throughout the community, whereas the data obtained from the income-tax returns is practically confined to incomes of £200 and upwards.

"Although declarations for the year ended 31st March 1939 were required to be furnished by 31st May 1939, many thousands were received long after that date, and the present statement deals with returns coming to hand up to 16th April, 1940. The total number of returns received up to that date was 955,134, of which 485,674 were for males and 462,060 for females; in 7,400 cases no data of any kind had been entered in the questionnaire. The number of returns was substantially less than should have been furnished. It is believed, however, that the great majority failing to supply returns had little or no income apart from salary or wages; in such cases, having no further social security tax (or very little) to pay, many did not appreciate, despite considerable publicity given to the requirements, that a return was still necessary.

"In addition to the 7,400 returns on which no data of any kind was furnished, some 43,690 (31,300 males, 12,390 females) were incomplete in respect of income, and a further 2,773 (2,545 males, 228 females) were

Social Security Fund

Universal pensions had been the central focus of Labour's rhetoric in the 1935 election. It was a political strategy that paid off because so many of the worst (and still very raw) memories of the Depression were the degrading and penalising income tests imposed on charitable aid recipients in what had become a very casual employment (including self-employment) environment.[7] So the call for universal benefits became very popular with those who saw themselves more as self-employed (or self-unemployed) than as part of an employee class. These proposals significantly broadened the appeal of the Labour Party, especially outside of the main cities (Rankin 2016c p.299).

An 'interdepartmental committee' of public servants was formed, to try, with good will, to achieve practical proposals that would both embody Labour's universalist ideals and affordability criteria (Hanson p.49). The Committee, on 18 March 1937, presented a set of reforms that ended up being remarkably close to the legislation that was eventually enacted in September 1938 (Hanson pp.52,55). The proposal included levying a flat Social Security tax of 7.5 percent (1s 6d in the pound), and having a universal superannuation that fell short of the levels Labour had promised.

The proposal fell into abeyance somewhat, awaiting the return of Finance Minister Walter Nash, who had spent most of 1937 in the United Kingdom, undertaking negotiations and enquiries on a wide range of matters. On Nash's return, he formed a new committee – a secret committee – to look into an actuarial (contributory) scheme, something more reflecting British orthodoxy that was quite different from the promises made on the hustings in 1935 (Hanson p.71,72). In February 1938, once back-bench Labour MPs (and activists) had gained an inkling of this change of heart away from non-contributory social security, they, led by J.A. Lee (who had been overlooked as a Cabinet Minister) rebelled (Hanson pp.74-80). They wanted to substantially raise benefit levels (and to ease rather than remove conditions) as a priority. The Labour 'left', which in the depression had come to see universal benefits – old-age pensions in particular – as a means of removing class-distinctions, was unwilling to compromise its more established view of the emerging welfare state as a working-class safety net.

After the successful Labour back-bench coup against Nash's contributory scheme, the wider public response to the proposals announced by Prime Minister Savage in April 1938 was such that some form of universal superannuation would have to be included (Hanson p.82). So with

cases of amending, duplicate, final returns, &c. The number of returns available for tabulation was therefore 901,271 (451,829 males, 449,442 females). Of these, 18,500 males and 206,000 females had no income, while a further 2,138 males and 427 females recorded a loss of income for the year."

[7] Important antecedents of the issues emphasised in the Labour Party's 2016 'Future of Work' conference (New Zealand Labour Party 2016). In the late-1920s, prior to the 1930s' 'Great Depression', machines and immigration were also understood as principal sources of labour market disturbance.

the help of key public servants[8] and despite another committee, universal superannuation was restored to the Social Security Bill only days before it was brought to Parliament. The government did not want to increase the flat-tax rate above five percent. Yet a failure to come up with a reform in the spirit of its 1935 rhetoric could lead to electoral failure in 1938. Having set expectations, the Labour Government had to produce something that would carry public support well beyond the ranks of the urban working-class.

Michael Joseph Savage introduced a 'comprehensive' Social Security Bill on 12 August 1938, replete with the latest 'New Deal' language. Pensions were out; 'social security' and 'benefits' were in. The age of entitlement to the now more generous age-benefit was lowered to 60. The transition to a universal public health-care system was set in motion. And a 'token' £10 per year universal superannuation benefit (to be increased by £2.5 each year) was introduced, effective from 1 April 1940. It was this last benefit that clinched the deal with the wider public; it was the acknowledgement that monetary benefits could be a symbol of societal success rather than of individual failure that ensured the popularity and success of the whole social security package, and not just of the new superannuation scheme.

The plan was that about half of social security benefits would be funded from dedicated social security taxation, the other half from Consolidated Fund transfers into the Social Security Fund. As it turned out, the cost of social security in 1939 was only £11 million, well short of the projected £15 million (Hanson p.157).

National Security Tax

During World War 2, as well as imposing surcharges on ordinary income tax,[9] the flat tax was extended. The wartime 'national security tax', an additional flat tax, effectively raised the social security tax to 10 and then 12.5 percent. J.V.T. Baker noted (p.261):

> In 1938–39 and earlier years there had been a charge on incomes of 8d. in the £ for employment promotion, but this had been superseded by the social security charge in 1939–40. Social security charge had been fixed at a shilling in the £ at the inception of the scheme in April 1939 and remained at that rate throughout the war. In May 1946 the social security charge would rise to 1s. 6d. in the £, but the national security tax would fall by 1s. to sixpence in the £. National security tax was abolished in April 1947.

Wartime taxation, which represented in effect an anti-inflationary fiscal policy (Hawke p.172), reinforced large Budget surpluses. The Government had plenty of funds to dispense in 1946. In reducing the overall flat rate to 10 percent in 1946, the Labour Government at the same time increased the social security tax to 7.5 percent, which is where it remained until finally merged with normal income tax in 1969. When the National Security Tax was lifted in April 1947, the remaining social security flat tax was 7.5 percent, the rate advocated by the 'interdepartmental

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[8] The most important being J.S Reid and Government Actuary S. Beckingsale (Hanson pp.92,115).

[9] "15 percent from the 1940 to 1942 tax (March) years, 33.3 percent for the next four years, and back to 15 percent for 1946-47" (Baker p.261). McLintock (1966) also gives important context to wartime public finance.

committee' in 1937 when it first formulated the social security scheme, but which the government felt in 1938 was too high to sell to the public.

Post World War 2

The increase in the rate of the social security tax coincided with the universalisation of the Family Benefit (legislation in 1945 for a 1946 implementation) paid to 'mothers' at a "generous" (McClure p.106) £26 per year per child, placed greater pressure on government's financial resources. A degree of war-time inflation helped. While the increments to the superannuation-benefit only matched inflation – despite the intention that they would be real increases – the age-benefit to which the government was more committed was raised substantially. 1946, an election year, proved to be a particularly generous year.

The Universal Family Benefit, in itself, had not been an election bribe.[10] The new National Party suggested it in the 1943 election campaign (McClure p.103). The United Kingdom introduced such Family benefits in 1944 (McClure p.106), where lower monetary benefits were offset by higher benefits 'in kind'. Rather it was a somewhat delayed response to wartime labour shortages. Married women with children stood to lose their income-tested Family Benefits at an effective marginal tax rate of 100 percent if their husbands worked overtime (McClure p.97). The system of income-tested benefits was creating an inelastic labour supply. The comparatively generous level of payment undoubtedly was also set to pre-empt a possible better pre-election offer from National.

In 1950, soon after National became government, the universal superannuation benefit was raised substantially,[11] and the annual increments were doubled. In addition, in the early 1950s, a time of historically high inflation, the age-benefit – dear to Labour – was held at nominal levels. From the early 1950s, universal welfare had become a National Party project; it remained so, at least until 1984. It was Labour which sought to abolish universal superannuation in 1974, which signalled the end of Family Benefits, with its Family Care programme in 1984 (McClure p.216), and with its tax surcharge on National Superannuation in 1985 (McClure p.214).

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[10] There is an argument that the Universal Family Benefit should have offset existing support for children through the normal income tax system, which was somewhat convoluted with a mix of graduations and exemptions. Vosslamber (p.120) notes the presence of child tax-exemptions (tax-benefits that increase with income) from 1915 to 1973. Rankin (2006 p.12) noted that when Finance Minister Robert Muldoon doubled the nominal value of family benefits, it was offset by a removal of child tax exemptions.

[11] McClure (pp.134-5) argues that in reality National was reverting to an "investment scheme" conceptualisation. "A Cabinet paper claimed that those who had contributed most to the Social Security Fund 'may be regarded as having the greatest claim to benefit from the Fund'." She also notes that Treasury Secretary Bernard Ashwin, a key member of the 1937 interdepartmental committee – then a sceptic on universal benefits – "advocated abandoning the means-tested age benefit and making an immediate move to a full universal superannuation scheme on condition that superannuation was taxed" – presaging Robert Muldoon's 1976 National Superannuation.

PAYE, and the Convergence of the Superannuation and Age Benefits

With the legislation for PAYE (pay-as-you-earn; deduction of income tax at source) in the last days of the National Government in 1957, there was a major break and readjustment of income taxes. The 1957-60 Labour Government inherited the adjustment, which also coincided with the 1958 'Black Budget' that followed the 1957-58 balance of payments crisis. In this time Labour abandoned that prescribed mechanism to raise Universal Superannuation benefits incrementally, bringing them into line with age benefits. Theodore Gibbs, principal author of the 1951 'Gibbs' Tax Report (Goldsmith p.221), is quoted (Goldsmith p.222) as being opposed to PAYE:

> Deduction of taxes at the source tends to remove the full appreciation of liability. ... The taxpayer does not feel the direct weight of the tax.

The converse view is that deduction at source creates much administrative efficiency. Further, *flat taxes* deducted at source remove most opportunities for tax avoidance, remove much of the concern about marginal tax rates being a disincentive to increase income, and suggest that income tax receipts really are public income, rather than private income that has been appropriated by 'the state'. Flat taxes create an opportunity for a society to regard the public (with its associated commons) as an equity partner in the wealth-creating process, and, as such, provide intellectual support a regime of universal benefits. Both flat taxes and universal benefits represent the substantial realisation of the principle of horizontal equity; treating equals equally.

Chart 1 (Appendix) shows the huge increase in the Social Security Fund in 1946-47, boosted by a much larger than ever before £18 million transfer (NZOYB 1943 to 1951-52) from the Consolidated Fund as well as by the 50 percent increase in the social security flat tax rate. Chart 2 shows the substantial rise in total taxation and in social security benefit payments in the 1940s' war years, which persisted into the 1950s and 1960s, showing benefit peaks with the introduction of family benefits, and with the 1960 increase in the level of the universal superannuation benefit to match the age benefit. Chart 3 shows how the Family Benefit in 1946-47 changed the social security landscape, but, unindexed, was allowed to erode in the 1950s and 1960s. Chart 4 shows individual benefit payments relative to GDP per person, showing the convergence of the superannuation benefit (eligible at age 65) with the income-tested age benefit (age 60).

Finally, Chart 5 shows the split in social security funding of universal monetary benefits, other monetary benefits (of which the age-benefit remained the largest), and medical benefits. In the case of Chart 5, if the original presumption had shown in the published statistics, that the superannuation benefit was a part of the age benefit rather than a distinct benefit, then the age benefit would have become a substantially-diminished supplement to universal superannuation. Universal benefits – dominated by superannuation – would have been sitting, in the 1960s, at close to 100 percent of social security tax receipts. The close link between the flat social security tax receipts and the universal monetary benefit payments became true.

The Consolidation of the Funds

The Social Security Fund entered its final metamorphosis, with the introduction of PAYE. The change was described thus in the 1963 Official Yearbook:

> Under the Income Tax Assessment Act 1957, which introduced PAYE taxation from 1 April 1958, social security income tax is combined with ordinary income tax as one tax on income. By the Social Security Amendment Act 1958 all income tax, including social security income tax, was payable into the Consolidated Fund in 1958–59 and 1959–60, and the amount necessary for administering the Social Security Act was appropriated out of that Fund. The Finance Act 1959 provided for the payment into the Social Security Fund, from 1 April 1960, of an amount computed at the rate of 1s. 6d. for each £1 of the national private income (as defined in the Act) for the preceding year, as estimated by the Government Statistician. … The income of companies has been liable for social security taxation since the inception of the scheme.

National, on resuming office in 1961, made the almost perfectly flat social security tax somewhat less flat, and further absorbed the revenue into a single overriding fund. The 1996 Yearbook reports:

> Since 1962 the first £104 of annual income has been exempt from social security income tax. … From 1 April 1964 a new account, called the Consolidated Revenue Account, has been substituted for the Consolidated Fund and the Social Security Fund, and under the Public Revenues Amendment Act 1963 there is credited to this account as social security income tax an amount computed at the rate of 1s. 6d. for every £1 of national private income for the immediately preceding financial year on which social security income tax is payable.

The Social Security income tax was now neither flat (though still 'flattish') nor supporting its own fund. The 1970 Year book, looking back, dismisses the social security income tax thus:

> Social security tax and income tax were combined in the tax deduction tables prepared for the operation of the PAYE system from 1 April 1958. (An assessment for accounting purposes of the social security proportion was made until 31 March 1969, when this calculation was discontinued.)

From 1967, when Robert Muldoon became Minister of Finance, his first major task of tax reform was to formally blend the social security tax with the statutory income tax scale (Rankin 2014 p.5). In doing so, the formal allowances and discounts embedded within the income tax scale – unconditional-rights-based-benefits hitherto implicit in the graduated income tax scale – were made smaller. This merger was the beginning of a process through which the income tax scale itself would become flatter.[12] By the end of that transition, in 1988, marginal tax rates on low incomes were at historical highs, while marginal tax rates on high incomes were at post-World-War-2 lows. Flat tax was fashionable, but as a means of lowering taxes rather than supplementing them.

[12] An important 1970s' episode of this process was documented in Rankin (2006).

Epilogue – an Opportunity Lost?

In 1988 David Lange overturned Roger Douglas' proposal for a flat-rate income tax of 24 percent (James 1992, p.238). It was superseded by a tax scale with two statutory rates, one at 24 percent and the other at 33 percent. What if Lange and Douglas had together decided to run with the original 24 percent proposal and then to add a *flat basic-income tax* of nine cents in the dollar, creating an overall tax scale of 33 percent flat. That nine percent *flat basic-income tax* could have funded a universal basic income of about $60 per week to everyone over 18 not already receiving a social welfare benefit.

Following the intent of the Universal Superannuation as initially legislated, as quoted at the beginning of this paper from the 1939 Official Yearbook, for those already on a benefit, the first part of their benefit could have been relabelled *universal basic income* (or some other such name; for example 'public equity dividend'; Rankin 2016a). This possibility was never on the political agenda. Nevertheless it represents a missed opportunity to draw inspiration from New Zealand's tax history; an opportunity that could have created a modern solution to the income distribution problems that have since plagued New Zealand and most of the liberal capitalist world, while still capping marginal tax rates at a modest 33 percent.[13]

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[13] Zero percent marginal tax rates if a *flat tax* is fully taxed at source as public income, realising Theodore Gibbs' fear of "the taxpayer not feeling the direct weight of the tax". (*Effective marginal tax rates* remain an issue for income-tested benefits, and other mandatory levies such as student loan repayments and formula-assessed child support.) We might also note that Gibbs' sense of reduced fiscal gravity is largely true for goods and services tax (GST), which is largely invisible to the consuming public who pay it.

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Appendix Tables

Table 1

New Zealand Social Security Fund and Precursors: 1930-70	£ March Year	GDP estimated GDP at current prices	Social Security Fund incl. Consolidated Fund Transfers	Social Security Fund excl. Consolidated Fund Transfers	Social Security Flat Tax Revenue	Tax Revenue Total Taxation
		£	£	£	£	£
	1930					
Unemployment Fund	1931	145,125,657	280,829	280,829		18,880,809
	1932	120,532,982	1,217,451	1,217,451		17,407,829
	1933	114,372,782	4,027,999	4,027,999	3,591,432	19,705,676
	1934	127,976,593	4,440,332	4,440,332	3,998,317	21,473,406
	1935	136,541,955	4,623,561	4,623,561	4,171,054	24,739,409
	1936	156,695,750	3,956,617	3,956,617	3,503,691	25,478,598
Employment Promotion Fund	1937	193,980,269	4,260,545	4,260,545	3,784,403	31,181,603
	1938	213,630,218	5,145,101	5,145,101	4,656,165	36,798,971
	1939	233,784,012	5,522,462	5,522,462	4,992,614	37,797,904
Social Security Fund	1940	251,418,582	11,367,118	9,557,751	8,860,920	44,522,028
	1941	271,068,532	13,967,823	10,767,823	10,109,577	61,360,840
	1942	293,237,705	14,687,683	11,087,683	10,432,314	68,163,256
	1943	337,576,052	16,013,640	12,213,640	11,624,046	87,940,844
	1944	377,379,796	17,492,085	13,392,085	12,796,108	100,839,484
	1945	382,418,244	18,776,406	14,276,406	13,663,858	108,681,814
	1946	402,572,039	22,286,192	15,286,192	14,557,460	114,954,873
	1947	428,771,971	40,520,164	22,520,164	22,383,884	113,119,046
	1948	486,041,166	42,334,637	26,334,637	26,176,634	122,275,911
	1949	495,000,000	44,500,465	29,500,465	29,378,385	130,440,249
	1950	553,500,000	43,838,183	31,838,183	31,702,570	135,556,319
	1951	704,000,000	49,882,389	35,882,389	35,766,236	157,947,000
	1952	729,500,000	57,781,666	43,781,666	43,612,868	200,550,000
	1953	764,000,000	59,628,236	45,628,236	45,507,938	199,770,000
	1954	845,000,000	63,838,972	49,838,972	49,717,376	206,802,000
	1955	938,500,000	70,314,110	56,314,110	56,175,151	234,766,000
	1956	989,500,000	74,110,981	60,110,981	59,910,717	244,829,000
	1957	1,039,000,000	75,856,519	61,856,519	61,635,224	252,852,000
	1958	1,112,500,000	66,509,589	66,509,589	66,256,104	244,882,000
	1959	1,160,500,000	105,400,056	80,800,056	70,249,000	305,243,000
	1960	1,241,000,000	106,733,430	233,430	0	297,288,000
	1961	1,343,500,000	110,462,306		75,390,000	334,463,000
	1962	1,391,500,000	118,892,374		80,377,500	358,203,000
	1963	1,499,500,000	116,761,931		82,327,500	342,014,000
	1964	1,636,500,000	125,344,542		88,900,000	371,172,000
	1965	1,794,500,000			92,700,000	422,269,000
	1966	1,938,500,000			102,350,000	459,100,000
	1967	2,019,500,000			110,500,000	494,450,000
	1968	2,091,500,000			116,250,000	506,350,000
	1969	2,218,000,000			117,400,000	529,300,000
	1970	2,567,000,000				590,650,000

sources: New Zealand Official Yearbook Collection; New Zealand Long-Term Data Series (Statistics New Zealand)

Table 2

New Zealand Monetary Benefits: 1931-1969

£ March Year	Total Monetary Benefits	Family Benefit	Universal Superannuation	Age Benefit
	£	£	£	£
1930				
1931	2,906,049	63,608		1,158,788
1932	3,088,536	90,100		1,277,107
1933	3,031,781	122,810		1,271,157
1934	3,149,895	146,766		1,350,982
1935	3,338,354	152,818		1,519,889
1936	3,659,664	149,043		1,718,601
1937	4,940,428	130,730		2,413,103
1938	6,312,530	106,402		3,235,057
1939	6,780,344	84,436		3,577,129
1940	11,231,641	252,562		6,517,899
1941	12,295,813	411,811	240,336	7,101,346
1942	12,724,373	539,183	445,686	7,190,694
1943	14,014,887	790,719	603,124	7,783,084
1944	15,535,199	876,858	778,758	8,101,668
1945	17,254,535	1,405,113	995,035	8,492,015
1946	20,633,933	2,611,759	1,185,508	9,817,615
1947	34,404,751	12,680,778	1,349,689	11,881,119
1948	32,773,898	13,798,648	1,593,757	12,976,286
1949	34,455,083	14,242,203	1,850,079	13,790,971
1950	37,171,886	14,850,959	2,179,365	15,133,751
1951	39,845,692	15,289,346	2,336,275	17,150,839
1952	43,855,815	16,110,297	3,144,091	19,235,326
1953	46,646,897	16,854,261	5,564,629	19,091,303
1954	49,095,091	17,618,581	6,029,183	19,922,234
1955	53,466,782	18,179,099	6,750,226	22,251,098
1956	56,155,372	18,860,866	7,771,406	22,831,089
1957	57,573,521	19,444,421	7,908,795	23,305,383
1958	60,434,198	20,152,619	8,279,199	24,304,077
1959	69,438,209	25,995,315	8,940,752	26,104,992
1960	87,769,766	31,791,986	15,460,047	27,291,008
1961	94,514,120	30,899,797	20,087,377	27,035,647
1962	96,876,175	33,440,323	23,148,897	24,858,413
1963	96,795,187	32,301,617	25,117,671	24,507,889
1964	101,903,928	34,240,234	27,194,909	24,680,663
1965	103,857,541	32,962,336	29,648,480	25,508,606
1966	108,075,500	35,081,500	31,289,500	25,728,500
1967	112,573,000	33,408,000	35,096,500	27,551,000
1968	121,131,000	35,726,000	38,187,000	28,747,500
1969	125,341,000	34,133,000	40,302,500	30,416,500
1970				

source: New Zealand Official Yearbook Collection

Chart 1

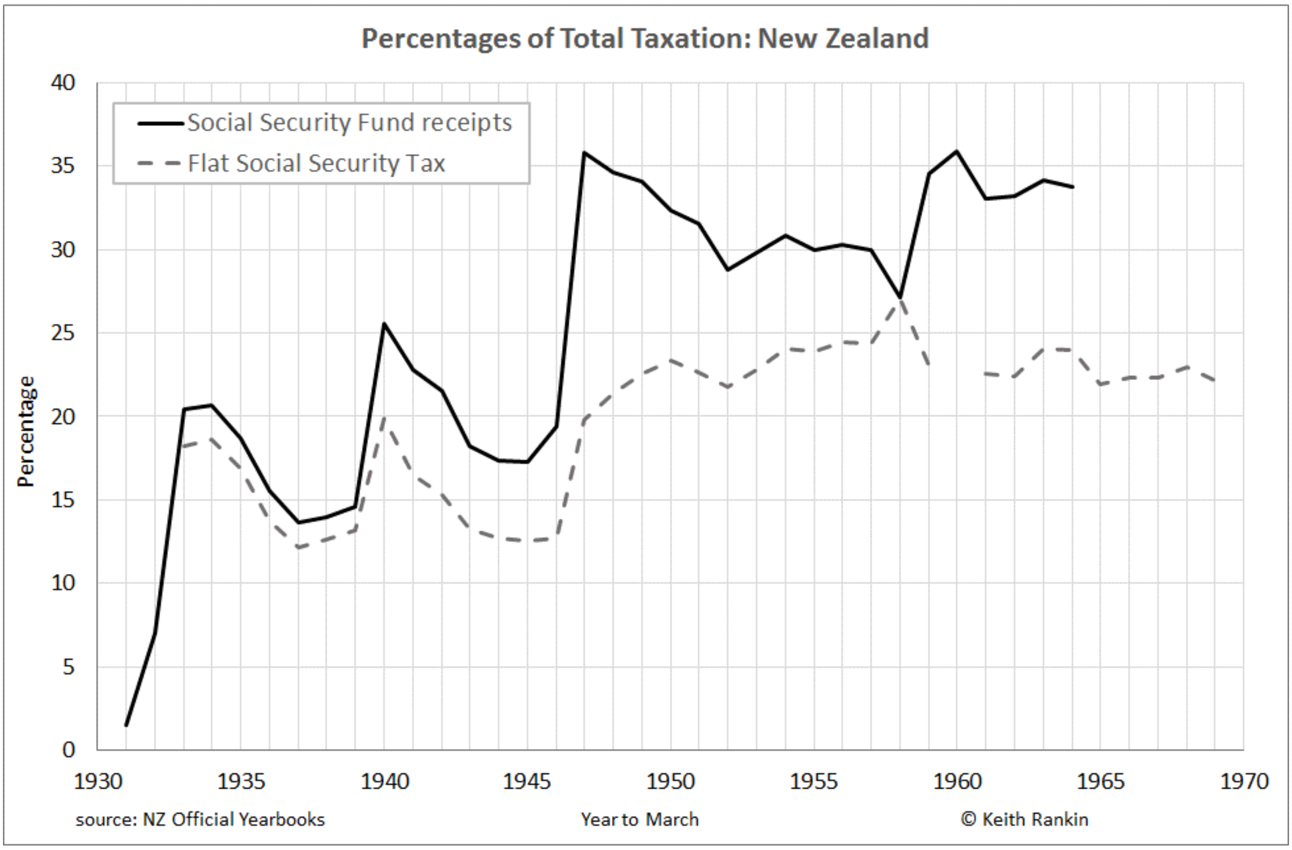


Chart 2:

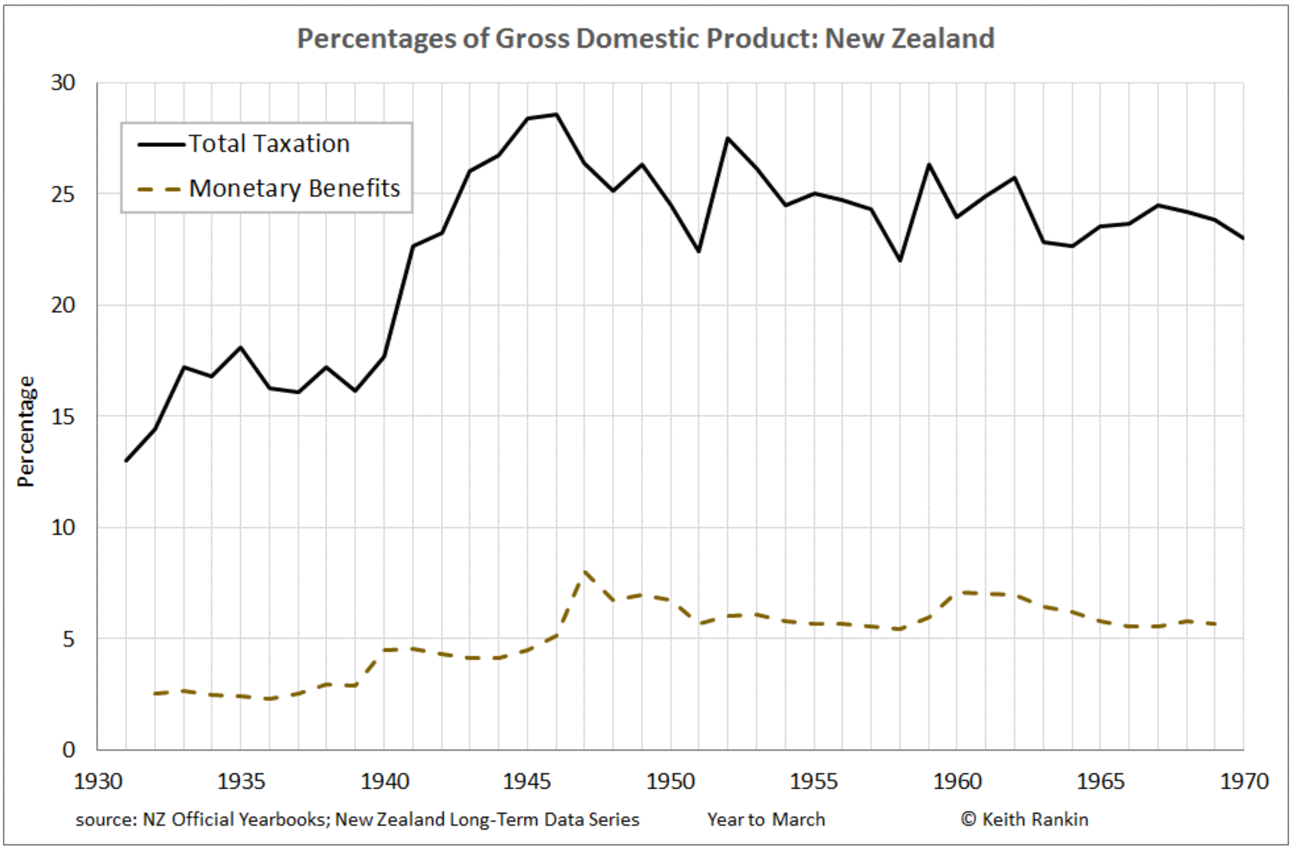


Chart 3

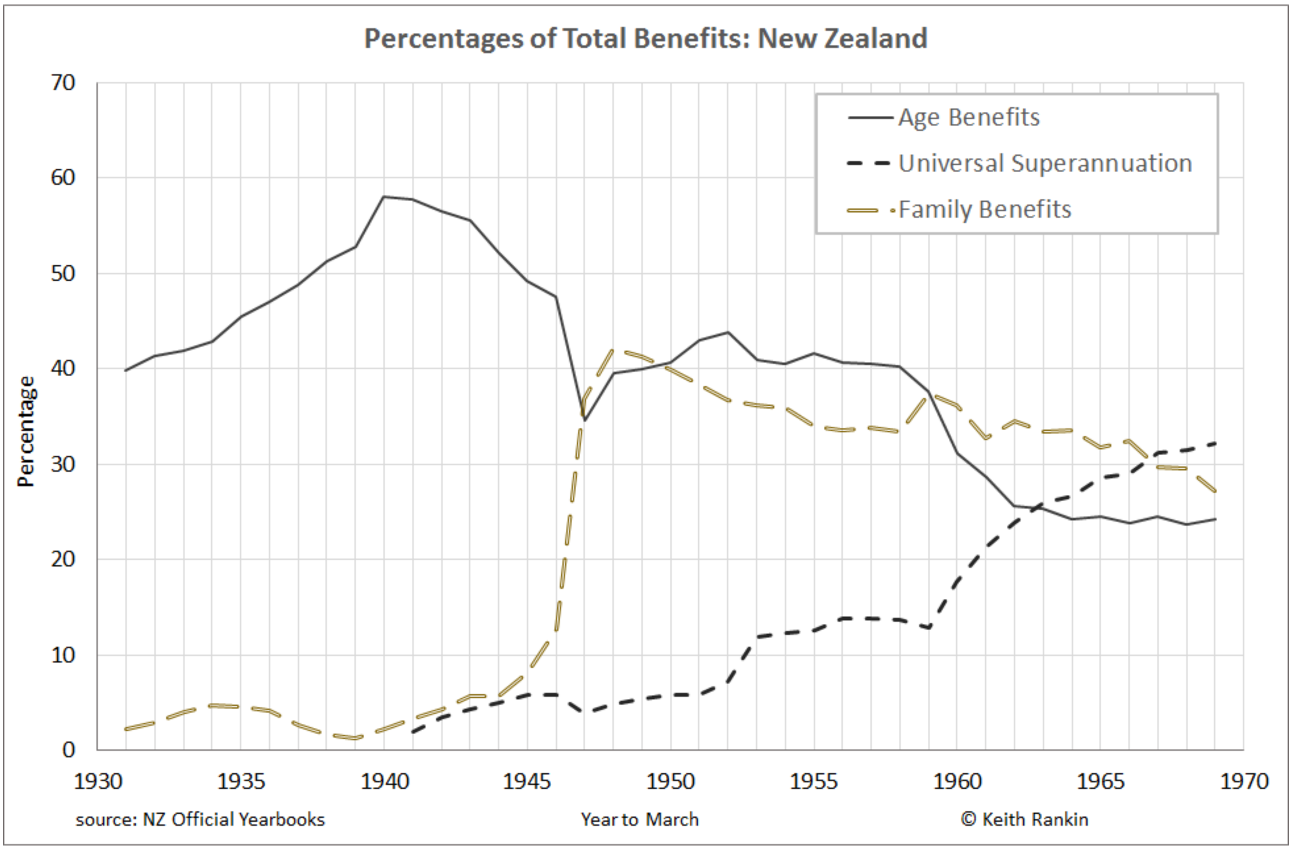


Chart 4

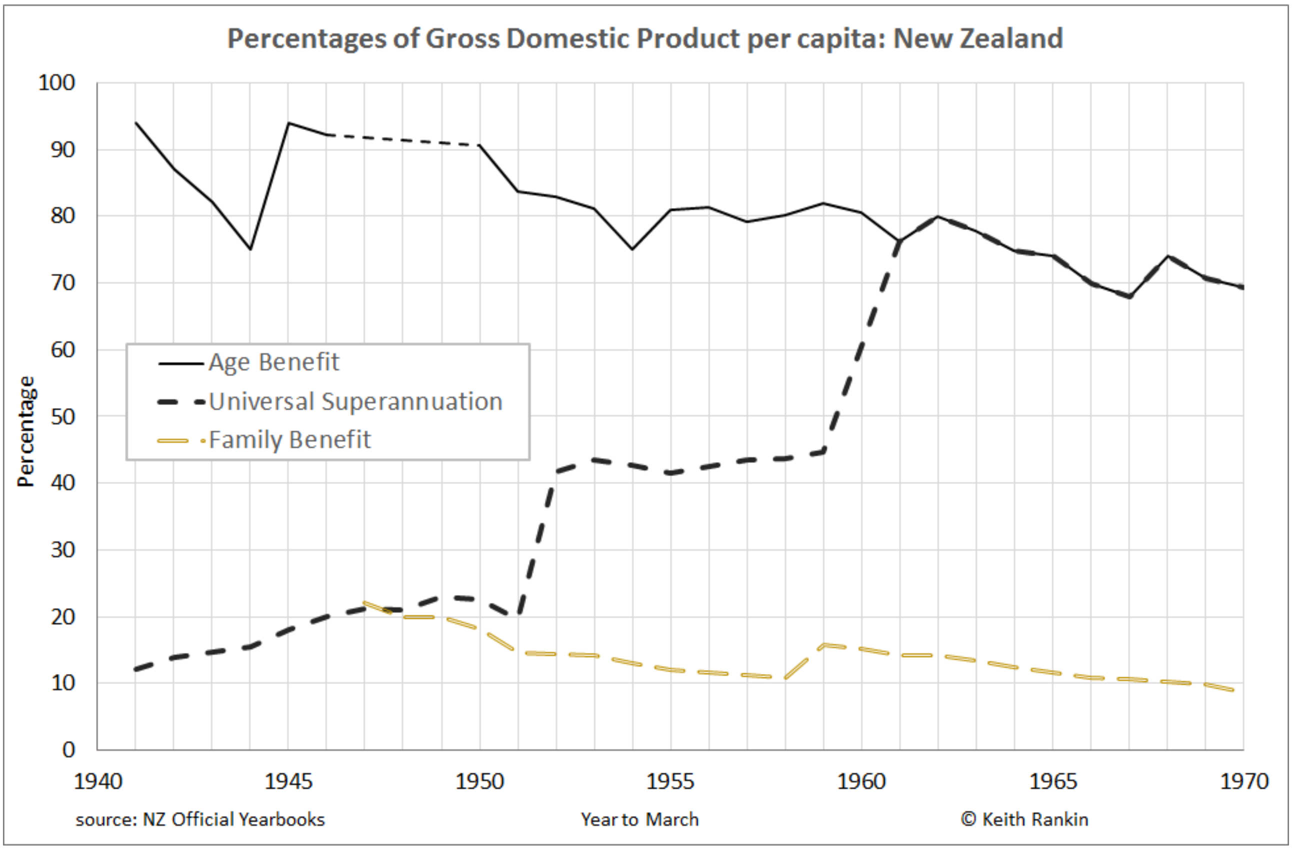
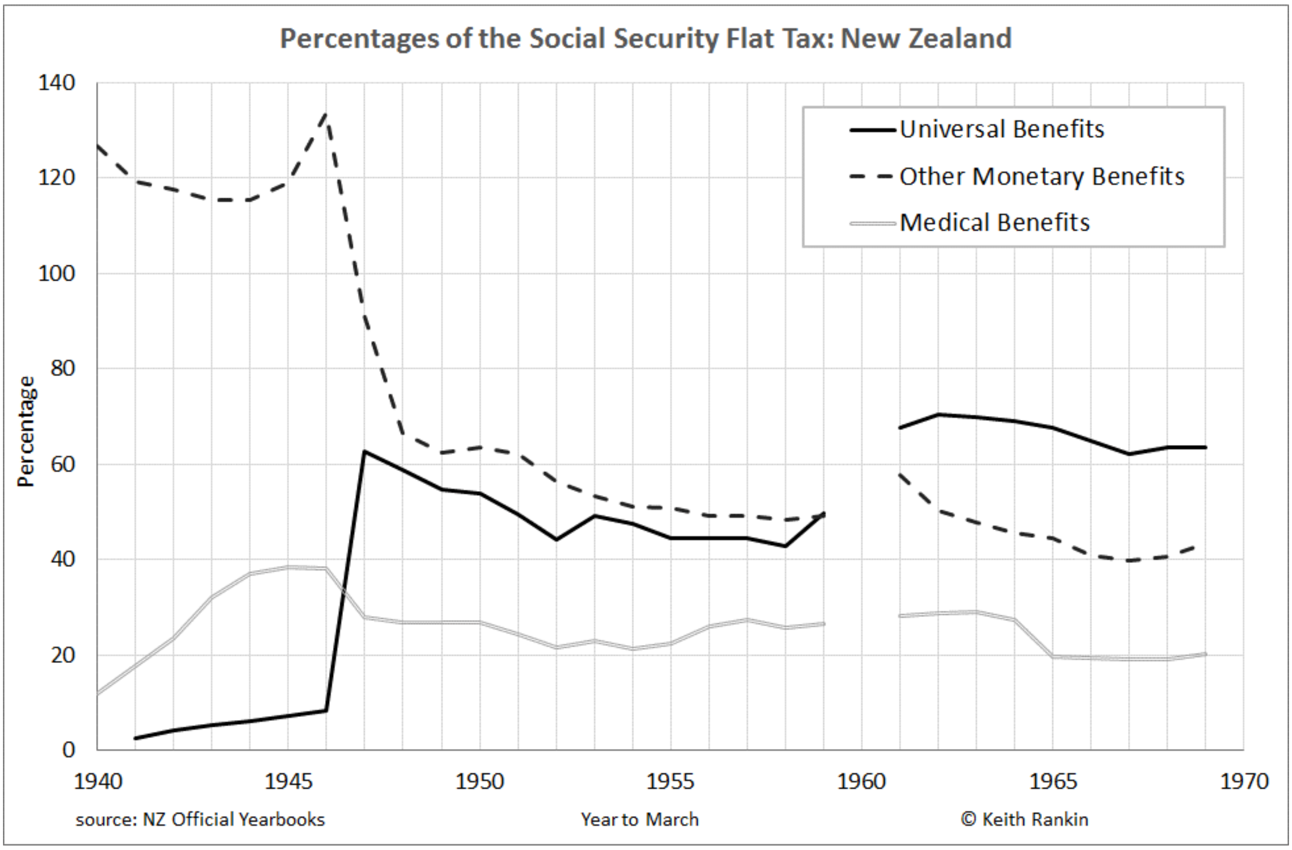


Chart 5


Percentages of the Social Security Flat Tax: New Zealand
140
120
100
80
60
40
20
0
Percentage
1940
1945
1950
1955
1960
1965
1970
Universal Benefits
Other Monetary Benefits
Medical Benefits
source: NZ Official Yearbooks
Year to March
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