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Steve's Soap Box

The following is yet another contentious piece of opinion Steve has written for the newsletter. As we have warned previously, these pieces are on current issues affecting New Zealand and will be hard hitting and sometimes controversial. Steve is not known for his diplomacy and political correctness, and we have given him an opportunity to say it as he sees it. The opinions stated in these pieces will be his own and not necessarily those of the company or other staff members. We hope you enjoy them as much as Steve enjoys writing them.

Most Wealth isn't the Result of Hard Work

The basic claim of capitalism is that people are rewarded in line with their effort and productivity.

> *'The beauty of capitalism, we are told, is that people who work hard can get rich without making others poor.'*

How does this stack up in modern New Zealand? Is the result compatible with the egalitarian image we have of our country? Recently the Office of National Statistics (ONS) in the UK released data tracking how wealth has evolved in recent times. This is relevant for us Kiwi's as UK data has mirrored NZ data on many other matters. On paper, the UK has indeed become much wealthier in recent decades. **Net wealth has more than trebled since 1995.** If we convert this to NZ dollar terms it would be an average increase of nearly $100,000 per person. This is impressive stuff, but where did this increase in wealth come from, and who benefitted, and who paid?

Just over three quarters of the total increase came from the increase in the value of property. The ONS explained that this was largely the result of increases in house prices, not an increase in the number of houses. I think we in NZ would feel that our property market has behaved the same. This is not surprising; the housing market has long been viewed as a source of wealth. The price of property is made up of two parts, the price of the building and the price of the land the building sits on. Building costs and the size and quality of buildings have risen however it is the land I wish to focus on. In just 20 years the market value of land has quadrupled, increasing wealth dramatically. The driving force behind rising house prices, and NZ's growing wealth, has been rapidly escalating land prices. For those who own property, this has provided enormous benefits.

According to the study in the UK, homeowners born in the 1940's and 1950's (Baby Boomers) gained an unearned windfall of NZ$160,000 between 1993 and 2014 alone. House price growth has been so great that a large proportion of working adults earned annually more from their houses than from their jobs.
As every bank economist will tell you, increases in house values leads to increased spending by home owners through various equity release type products. We borrow money to buy new cars and fund holidays, and a large proportion of us borrow to buy other property. Evidence suggests older households are using their housing wealth to buy rental properties, renting out to those who are unable to get a foot on the property ladder.

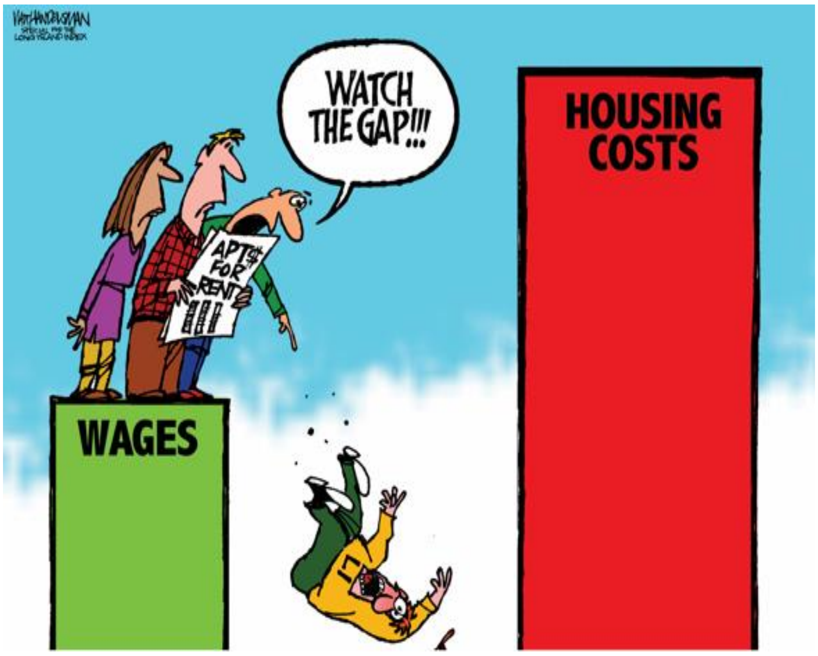
As house prices have continued to increase the gap between house prices and earnings has grown ever larger. The cost of homeownership has become increasingly prohibitive. In the mid-1990's low income households could save for a first home deposit in 3 years, today it takes the same households 20 years. For those unable to afford to buy, the proportion of income spent on rent has risen from 10% in the mid-1980's to 36% today. Very few Kiwis would disagree. Unlike homeowners, there is no property wealth to draw on to fund new cars or holidays.

'House prices are now on average eight times that of incomes, more than double the figure of 20 years ago.'

Kiwis have yet to confront the truth about the billions of dollars of wealth amassed through the housing market in recent decades. This wealth has come straight from the pockets of those who don't own property. **It is unlikely that house prices will be able to outpace incomes for the next 20 years therefore the past 2 decades have spawned a one-off transfer of wealth that is unlikely to be repeated.** While the main beneficiaries of this have been the Baby Boomers, eventually this wealth will be passed on via inheritance and loans. Already, the bank of mum and dad is probably the 5th largest mortgage lender in NZ (behind the big four Ozzie banks). The final result is not just a growing intergenerational divide, but also an entrenched class divide between those who own property and those who don't.

This world is rather different to that described in economic textbooks. **Most of today's wealth isn't the result of hard work or entrepreneurialism, it has been accumulated by being idle and unproductive.** Far from being the positive sum game capitalism is supposed to be, we have a system where most wealth is gained at the expense of others.

There are a lot of reasons behind why this situation has occurred. In my next article I would like to examine some of them.
In the interim it is time to call the housing market what it really is – "the largest transfer of wealth in living memory".



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