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# It's not just about the money:

The benefits of asset ownership

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## EXECUTIVE SUMMARY

Many New Zealanders are currently without an ownership stake, and find it difficult to build wealth over their lifetime. The median household wealth in New Zealand is just \$68,300, with 800,000 New Zealanders owning less than \$20,000. And 16% of New Zealand households have negative wealth, where their liabilities exceed their assets.

It is also likely that the difficulties that New Zealanders face with respect to accumulating wealth will become more pronounced. In particular, young New Zealanders face new pressures, like student loan debt and declining home affordability, which constrain their ability to accumulate wealth. This means that there may be an increasing number of New Zealanders without an ownership stake in the economy.

### **Asset ownership – or the lack of asset ownership – has profound effects on life outcomes for individuals and for the well-being of communities**

The international and New Zealand evidence on the economic and social importance of asset ownership to individuals and communities strongly suggests that this situation is cause for serious concern. Asset ownership has a significant effect on the economic and social outcomes for individuals and for communities.

For individuals, asset ownership provides direct financial benefits in terms of the returns generated. As a result, those who own assets are in a much better position to get ahead financially than those who do not own assets. In this sense, wealth inequality is frequently

self-perpetuating. Further, the benefits from economic growth are often capitalised into asset values, so that asset owners benefit disproportionately from growth. Those who own assets – like real estate – get ahead while those without assets may get priced out of the market.

And accessing these return opportunities often requires some initial asset ownership. For example, a deposit is required to buy a home, and initial equity capital is generally required to start a new business. It takes money to make money.

Assets also provide a buffer, which allows people to better manage risks. The insurance provided by asset ownership is becoming increasingly important as the risks that people face become more diverse and the extent of social insurance provided by the government reduces.

The ability to access opportunity and get ahead, and to better manage risks, also generates powerful social and psychological benefits. Asset ownership gives people a sense of control and independence, allows them to focus on the future to a much greater extent, and is an increasingly important determinant of meaningful participation in society. Asset ownership has been strongly linked to better health and employment outcomes, quality of life, marital stability, and educational outcomes for children. Encouraging asset ownership seems an important way in which to build a genuinely inclusive economy.

Widespread asset ownership also has significant community-wide benefits in terms of generating social cohesion and a feeling that everyone has an opportunity to get ahead and build a future. To the

extent that people own a house, a business, or financial assets, they are better able to participate meaningfully in society. Indeed, the evidence shows that people who own assets tend to be more involved in their communities. Conversely, communities in which many people do have an ownership stake – and where people feel marginalised – tend to experience worse outcomes.

Many of these benefits have long been understood and have motivated policies across the world, including in post-war New Zealand. But the strength of the evidence, and the importance of asset ownership, seems to be increasing. The implication is that creating an ownership society in New Zealand – ensuring that many more New Zealanders have an ownership stake – will have significant effects on the ability of New Zealanders to participate meaningfully in society.

**There is a clear role for deliberate action to create an ownership society**

The outcomes that are affected by asset ownership – or the absence of asset ownership – are those in which all New Zealanders have a clear interest. Governments, businesses, and community organisations all have an interest in ensuring that individuals have the opportunity to participate meaningfully in modern society. On this basis, creating an ownership society, and helping all New Zealanders to get ahead financially, ought to be a clear policy priority for government, as well as for business and community organisations.

The creation of an ownership society, in which many more New Zealanders

are accumulating assets and building wealth, will require policy assistance and encouragement. This is a clear lesson from the New Zealand experience over the past decade, where successive governments have pursued a hands-off approach to wealth accumulation and relied on individual decision-making. This approach has contributed to a situation in which many New Zealanders are struggling to accumulate wealth, home ownership rates and household financial wealth are declining, and household savings are low, despite the strong economic growth over the past decade.

There are three primary reasons that a hands-off approach to policy is inadequate.

First, the evidence is clear that savings and wealth accumulation is an area in which people do not make fully rational decisions. Many people find savings hard, and so policies and institutions that make the savings decision easier – for example, through default enrolment into savings schemes – generate much improved outcomes. Although helpful, relying on income growth, tax cuts, or financial education in isolation will be insufficient to increase savings significantly – as the New Zealand experience over the past decade has shown. Rather policies that deliberately allow for income growth to be converted into wealth are required.

Second, some New Zealanders lack the income to be able to save and accumulate wealth. Assisting low income New Zealanders to accumulate assets is likely to require policy assistance. The standard way in which New Zealand governments have achieved redistributive objectives is through



income transfers. But to an increasing extent, meaningful participation requires asset ownership and cannot be achieved simply through income transfers. This is why asset building initiatives in low income communities have been implemented or are under consideration in many developed countries.

And third, people do not consider the community-wide benefits to asset ownership when they are making individual decisions. As a result, encouraging asset ownership may improve overall community well-being.

The importance of deliberately encouraging asset ownership is recognised in all other Anglo countries – and most other OECD countries – where a wide range of policies exist to enable people to build an ownership stake.

In sum, asset ownership matters profoundly for both individuals and communities – and improving these outcomes is something that ought to be a key priority for the private and public sectors. And there is a strong case for the government to prioritise the creation of an ownership society and implement policies to encourage wealth accumulation – as indeed New Zealand governments have done in the past.

