

Give young a stake in country's future

By David Skilling

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We need policies that assist and encourage asset ownership, particularly for the young, says David Skilling.

Despite positive recent economic conditions, many New Zealanders do not have a meaningful ownership stake in the New Zealand economy – such as ownership of a house or financial assets. Indeed, New Zealand's levels of home ownership and household financial wealth have both reduced significantly over the past decade or so, and compare poorly with those observed in countries like Australia.

These trends are particularly acute among young New Zealanders, say those under their mid-30s.

For example, whereas home ownership rates declined by a substantial 6 percentage points – from 74% to 68% - for the general population between 1991 and 2001, they declined by over 12 percentage points for 25 – 34 year olds. And in Auckland, home ownership rates among the young dropped by almost 20 percentage points over this period. The data suggest that this decline is due largely to affordability problems rather than just changing preferences for home ownership.

Student loan debt is also an increasingly significant financial issue for young New Zealanders. Over 413,000 New Zealanders have a student loan, with an average debt of about \$14,400, and over 100,000 have student loan debt of more than \$20,000. Although many students will obtain a good financial return from their investment, student loans represent a new constraint on wealth accumulation.

And young New Zealanders are likely to have participated in the strong increase in household borrowing over the past decade, which has reduced household financial wealth.

Statistics New Zealand estimate that 47% of the 18-24 year old population have 'negative wealth', where debts exceed assets, and 31% of the 25-34 year old population.

These recent developments have compromised the ability of young New Zealanders to build wealth and get ahead financially in the same way as previous generations of New Zealanders were able to – by buying a home when young, paying off the mortgage, and benefiting from capital gains.

Asset ownership provides income – returns and capital gains – that supplements wage and salary income. Indeed, returns to assets have consistently out-stripped wage growth in New Zealand. Many of the benefits from economic growth accrue to asset owners, as their assets – such as houses or shares – gain in value. As a result, those with assets tend to get ahead while those without assets – including many young New Zealanders – find it much more difficult.

And if New Zealanders observe better prospects for getting ahead financially in Australia and elsewhere, this provides an incentive for them to leave.

Improving the asset ownership of New Zealanders, particularly young New Zealanders, will generate profound financial and non-financial benefits.

For individuals, asset ownership enables people to exert more control over their lives, managing risks and taking advantage of opportunities, and thereby to participate more meaningfully in society. They can plan ahead with more confidence.

Asset ownership also provides people with a stake in the social and economic prosperity of New Zealand – if the country moves ahead, they are likely to do so as well. This is why communities with widespread asset ownership in which most people have a stake – a ‘property owning democracy’ – tend to function better. For example, there is consistent evidence on the profound social benefits from home ownership, which relate to having a stake in the neighbourhood and broader community.

Conversely, a society in which many of its young people do not have confidence that they will be able to get ahead, and build a stake in New Zealand, is likely to experience pressures. And this is a sentiment that we have regularly encountered in interviews with people in their 20s and 30s.

As an example of some of these broader pressures, Australian Reserve Bank Governor Ian McFarlane recently identified potential tensions associated with asset poor younger people being required to pay higher taxes to finance the healthcare and superannuation costs of asset rich seniors as the population ages over the next few decades. The same potential tension exists in New Zealand, and we need to be proactive in addressing this and other related tensions.

Promoting asset ownership will generate benefits for all New Zealanders, but is a particular priority for young New Zealanders. So what to do?

A key reason that ownership outcomes for young people have deteriorated, and why New Zealand’s outcomes compare poorly to countries like Australia, is the lack of policies designed to help people get ahead, particularly policies to encourage savings and home ownership.

Such assistance makes it much more likely that people will have sufficient money in the bank for a deposit on a first home, to repay student loans, or to start a small business. These policies benefit everyone, but have powerfully beneficial effects on young people.

This focus on promoting asset ownership needs to be deliberate. Simply relying on income growth is insufficient, as the past decade has shown clearly where relatively high economic growth rates have been generated and yet home ownership rates and household financial wealth have both declined sharply. All other Anglo countries have savings policies that deliberately convert income growth into wealth, and New Zealand needs to follow suit.

New Zealand used to have these policies to assist and encourage asset ownership. We need to develop a 21st century version of these policies to ensure that young New Zealanders today can make a start in life. The New Zealand Institute will be making specific recommendations over the next few months on what these policies might look like.

Asset ownership matters for all New Zealanders, but giving young people a start is particularly important. We need to ensure that many more young New Zealanders have a stake in the future success of New Zealand.

Dr David Skilling is the chief executive of the New Zealand Institute, a policy think-tank that has released a series of reports on creating an ownership society.