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DISCUSSION PAPER 2004 / 1

The wealth of a nation:
The level & distribution of wealth in New Zealand

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The New Zealand Institute

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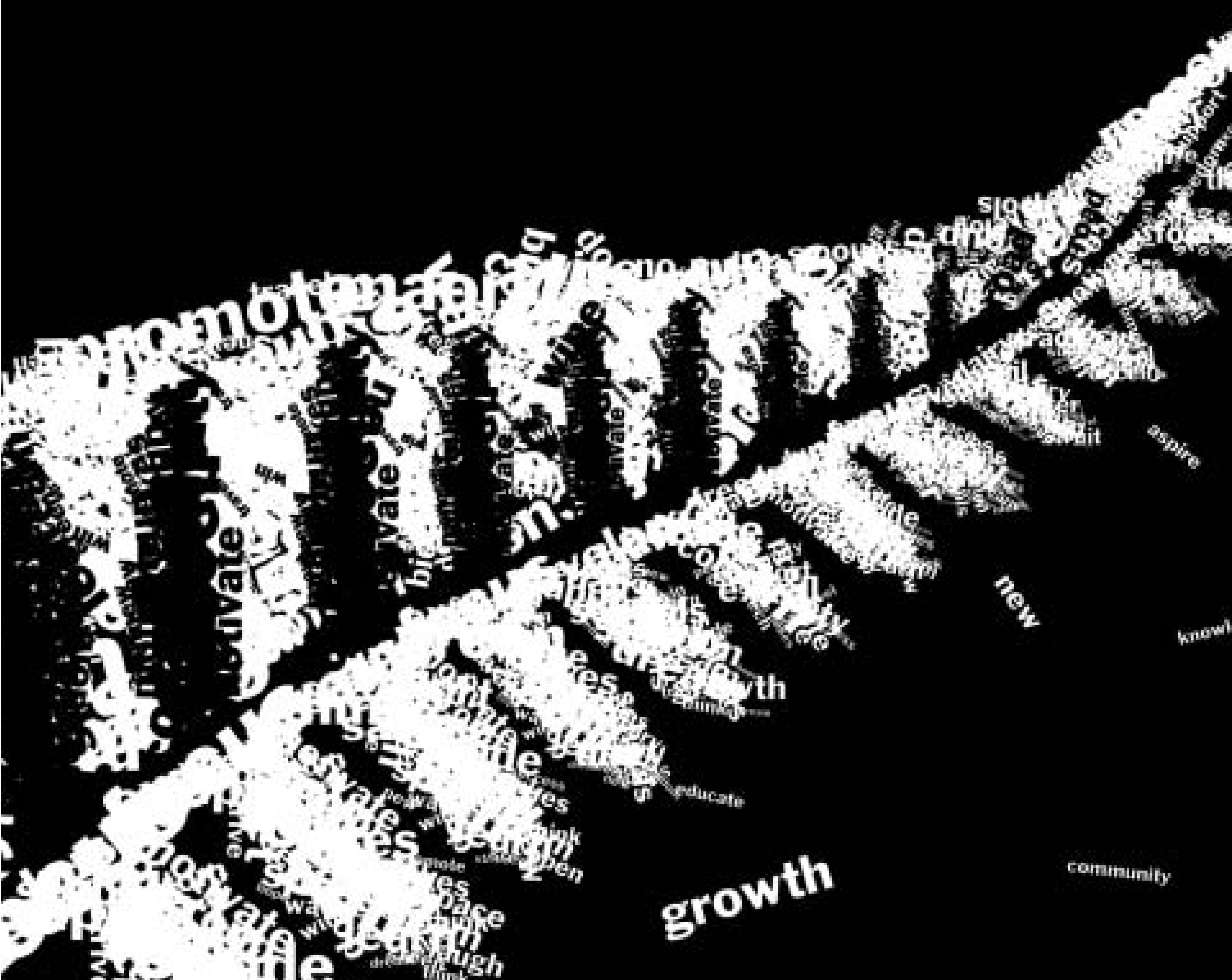
‘The Wealth of a Nation’ is the first paper in a series that forms part of the New Zealand Institute’s initial research program on Creating an Ownership Society.



FOREWORD: CREATING AN OWNERSHIP SOCIETY

Asset ownership is increasingly important for meaningful participation in society and the economy. Ownership enhances the ability of people to access opportunities and to invest in the future – by buying a house, financing education, and so on – and allows people to cope with shocks. Assets provide greater security, control, and independence. A broad distribution of ownership also generates enhanced social cohesion at a national level, and ensures that more New Zealanders obtain the benefits of economic growth. So helping all New Zealanders acquire assets will make a significant contribution to New Zealand's economic and social future.

In recognition of the increasing importance of asset ownership, many countries are introducing and expanding 'asset based policies' that assist and encourage people to accumulate wealth. Creating an ownership society, in which ownership of assets is broadly distributed through the population and in which all people are able to accumulate wealth over their lifetimes, is a policy priority across many countries. And such policies are advocated by governments and political parties from across the political spectrum; it is not a policy solely of the left or of the right.

However, many New Zealanders do not have any real wealth holdings. And many New Zealanders – particularly young New Zealanders – are finding it increasingly difficult to advance financially and build an ownership stake; rising house prices and declining home ownership rates, student loan debt, and an emerging debt culture, all make wealth accumulation harder. Further, New Zealand's overall level of household wealth is substantially lower than in most other countries, and this is likely to constrain domestic investment, productivity and growth.

Although New Zealand has historically had policies that assisted people to accumulate wealth – like assisted home ownership – these policies have been removed over the past two decades, and there are currently no deliberate policies that assist New Zealanders to build an ownership stake. This sets New Zealand apart from the international policy mainstream, and increasingly so as countries pursue asset based policies to encourage ownership.

We have chosen 'Creating an Ownership Society' as our initial work program because increasing the number of New Zealanders with an ownership stake – and increasing the overall level of asset ownership in New Zealand - will have a profound effect on New Zealand's economic and social future. We also believe that New Zealand policy settings in this area are increasingly out of date and we want to contribute new and creative thinking to the New Zealand debate, drawing on developments in international policy and thinking. Our focus is on identifying ways in which New Zealanders can be assisted to acquire assets over their lifetime.

So over the next several months, we will be releasing a series of papers examining different aspects of this issue, discussing these issues with New Zealanders, and developing recommendations as to how government, business and community organisations can assist many more New Zealanders to build an ownership stake.

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EXECUTIVE SUMMARY

Wealth holdings in New Zealand are highly concentrated and many New Zealanders are struggling to get ahead financially, living from week to week with no meaningful wealth accumulation. There is also a sense that getting ahead is not as easy as it was 30 or 40 years ago, and a concern that things are getting worse not better.

The pressures on wealth accumulation by New Zealanders come in many different forms; high and rising student loan debt, rising house prices and the effect that this has on affordability for first home buyers, and the rapid increase in household debt. Although these problems are distinct in some senses, together they reflect a broader trend that increasingly compromises the ability of New Zealand households to advance financially. And these challenges affect most New Zealanders. This is not a problem that is confined to those on low incomes, but affects many that would traditionally be thought of as the comfortable middle class.

The debate around people's financial welfare often focuses on the adequacy of people's income. Although income adequacy is obviously important, there is increasing awareness that asset ownership is also a fundamental determinant of people's economic and social welfare.

This paper focuses on the ownership position of New Zealand households. Using a variety of data sources, as well as responses from a series of over 70 in-depth interviews with New Zealanders, this paper examines the level and distribution of wealth in New Zealand, and examines the process of wealth accumulation for New Zealanders. What drives wealth accumulation, and what types of assets do people acquire through their lifetime? We also compare the New Zealand experience to that of other Anglo countries (Australia, Canada, the UK and the US) and investigate how the level and distribution of wealth in New Zealand is likely to change through time. The key findings are that:

Wealth holdings are highly concentrated, with many New Zealanders having no wealth – or negative wealth

The 2001 Household Savings Survey shows that the wealthiest 10% of the population hold over 50% of total wealth and the bottom half of the distribution holds less than 3%. Median wealth in New Zealand is $68,300, with only about 28% of the population holding wealth greater than $200,000 and 43% holding more than $100,000. Over 800,000 New Zealanders have less than $20,000 in wealth.

The degree of inequality in New Zealand's wealth distribution is about twice that of income inequality in New Zealand. This is fairly standard across Anglo countries, but New Zealand is unusual in having a relatively high proportion of people with negative wealth (i.e. with more liabilities than assets); 16% of New Zealanders have negative wealth, compared with 4% in Australia and 8% in the US.

Many people do not accumulate wealth through their lives

Many of those with low wealth holdings are young, and will accumulate some wealth over their lifetime. However, many New Zealanders never accumulate wealth. Even at the end of their working lives, about 10% of 60-64 year olds had no wealth or negative wealth in 2001 and 50% had less than $200,000. People who earn below the median income struggle to accumulate wealth, and family structure also has a profound effect on wealth accumulation.

Most New Zealanders invest in housing rather than financial assets

The asset of choice is real estate, with the balance sheets of most New Zealanders dominated by housing rather than financial assets. While around 70% of New Zealand households own a home, financial assets are held by less than 20% of the population. In general, it is only the wealthiest households in New Zealand that hold both property and financial assets. This composition looks different from that observed in other countries, where there is a far greater tendency to own financial assets as well as a home.

In aggregate, New Zealanders hold little wealth compared to other countries

Across the distribution, New Zealanders do not hold much wealth. New Zealand's level of household wealth is considerably lower than in other countries. The level of overall household wealth as a share of disposable income has grown slowly over the past decade, and household financial wealth as a share of disposable income has reduced significantly.

Some of this difference is due to the generosity of public provision of retirement income in New Zealand relative to other Anglo countries. However, this provides only a partial explanation for the lower level of household wealth in New Zealand compared to other Anglo countries. Rather, much of the difference seems to be due to the policies and institutions that promote wealth accumulation in other Anglo countries – like savings policies, assisted home ownership and so on – and that are absent in New Zealand.

The prospects for wealth accumulation by New Zealanders are likely to worsen over the next several decades

New Zealand's current level and distribution of wealth reflect the economic, social and policy environment that has prevailed over the past several decades. In general, this environment has been supportive of wealth accumulation. However, several trends that have emerged over the past decade and that look set to continue into the future suggest that the environment will not be as favourable for wealth accumulation by New Zealand households. In particular, sharply declining home ownership rates, high and rising levels of student loan debt, and rising household borrowing all suggest that many people will accumulate less wealth over their lifetime than has been the case historically in New Zealand.

It seems likely that the proportion of New Zealanders with limited wealth is likely to increase over time, and the overall level of household wealth will be under pressure. This has the potential to have a significant effect on the functioning of New Zealand society.

However, the lesson from other Anglo countries is that household wealth accumulation behaviour is affected by public policy, and that it is possible to even out the wealth distribution – as has been done in Australia. Options are available to New Zealand to address these trends in the level and distribution of ownership.

1 INTRODUCTION

Wealth holdings in New Zealand are highly concentrated and many New Zealanders are struggling to get ahead in a financial sense, living from week to week with no meaningful wealth accumulation. There is also a sense that getting ahead is not as easy as it was 30 or 40 years ago, and a concern that things are getting worse not better.

The pressures on wealth accumulation by New Zealanders come in many different forms; high and rising student loan debt, rising house prices and the effect that this has on affordability for first home buyers, and the rapid increase in household debt. Although these problems are distinct in some senses, together they reflect a broader trend that increasingly compromises the ability of New Zealand households to advance financially. And these challenges affect most New Zealanders. This is not a problem that is confined to those on low incomes, but affects many that would traditionally be thought of as the comfortable middle class.

The debate around people's financial welfare often focuses on the adequacy of people's income. Although this is obviously important, there is increasing awareness that asset ownership is also a fundamental determinant of people's welfare. Indeed, there is increasing international awareness of the economic and social importance of asset ownership.

This paper focuses on the ownership position of New Zealand households. Using a variety of data sources, and particularly the 2001 Household Savings Survey, this paper examines the level and distribution of wealth in New Zealand, and examines the process of wealth accumulation for New Zealanders.[1] What drives wealth accumulation, and what types of assets do people acquire through their lifetime? We also compare the New Zealand experience to that of other Anglo countries – Australia, Canada, the UK and the US – and investigate how the level and distribution of wealth in New Zealand is likely to change through time. The

Definitions

In this paper, we use the concepts of *assets* and *wealth*.

- *Assets* include physical assets like property, cars and business assets as well as financial assets such as superannuation or shares.
- *Wealth* refers to the value of assets that a person owns minus the debts that they owe, like mortgages or student loan debt (other studies sometimes call this measure 'net worth').

[1] The Household Savings Survey (HSS) is the first comprehensive survey of the assets and liabilities of New Zealand households. The HSS and other primary data sources used in this paper are described in detail in Appendix 1.

analysis and interpretation of these data is informed by a series of over 70 in-depth interviews that we have conducted with a wide range of New Zealanders about these issues.

The paper proceeds as follows. Section 2 outlines the distribution of wealth in New Zealand, looking at how evenly wealth holdings are distributed across the population. This distribution is compared to other Anglo countries. Section 3 then describes the wealth accumulation process in New Zealand; it examines the extent to which individuals and households accumulate wealth through a lifetime. The section also examines the type of assets that New Zealanders accumulate and benchmarks these patterns against other developed countries. Section 4 examines the overall level of wealth held by New Zealand households, and how this compares to other Anglo countries. Section 5 then discusses several trends that will affect the distribution and level of household wealth over the next few decades. Section 6 concludes with some thoughts on the key messages arising out of this analysis.

2 THE DISTRIBUTION OF WEALTH

The 2001 Household Savings Survey indicates that holdings of wealth in New Zealand are highly concentrated. In 2001, the wealthiest 10% of the population held over 50% of total household wealth, or $190 billion out of a total household wealth of $367 billion. In contrast, the bottom 10% held negative wealth of -$3.3 billion (where liabilities exceed assets), and the bottom half of the distribution held less than 3% of total household wealth.

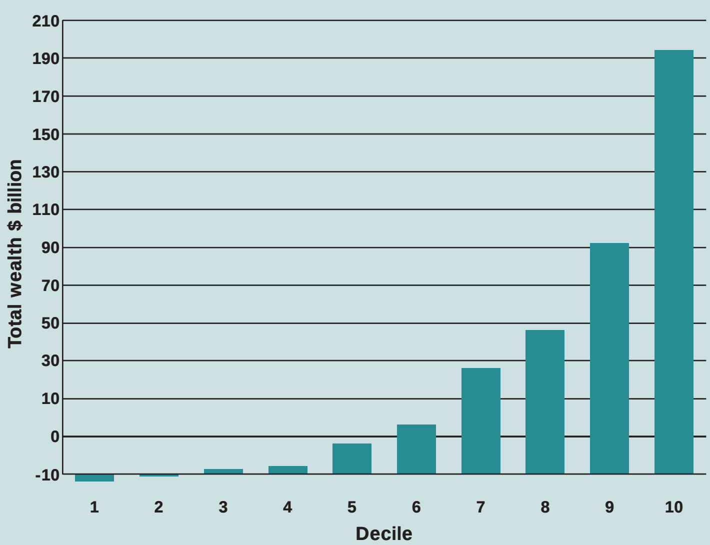
Figure 1 divides the population into 10 wealth deciles, arranged from poorest to richest, and describes the wealth holdings of each of these groups (each decile contains about 250,000 'economic units').[2]

Figure 2 describes the actual wealth holdings of each of these deciles.

Overall, the median level of wealth in New Zealand is $68,300. However, the median level of wealth for the bottom two deciles is negative and the bottom five wealth deciles do not have significant wealth holdings. This contrasts with the top two wealth deciles, where the average wealth holding is $1.1m and $400,000 respectively.

This is obviously an uneven distribution of wealth. To measure the degree of inequality in the distribution, Statistics New Zealand (2002) calculate a Gini coefficient – a standard measure of inequality – and find that the measure of wealth inequality is over twice that for income inequality in New Zealand (a coefficient of 0.69 for wealth as opposed to 0.32 for income). That wealth inequality is much greater than income inequality is

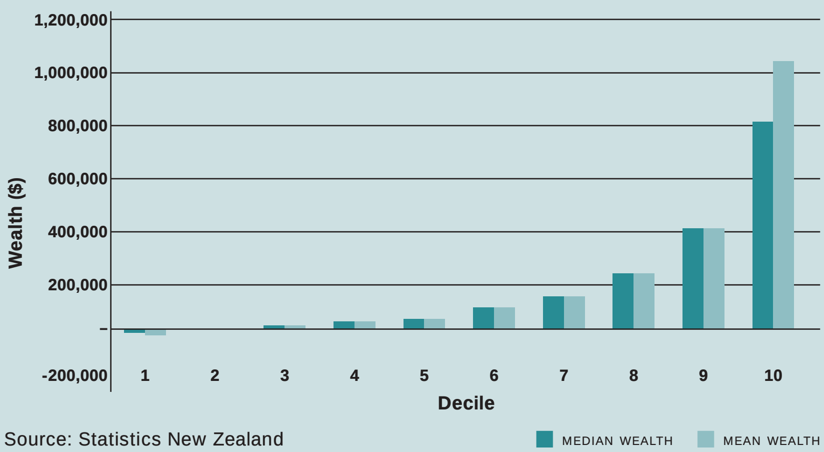
FIGURE 1: TOTAL WEALTH OF ECONOMIC UNITS BY DECILE, 2001



Source: Statistics New Zealand (2002)

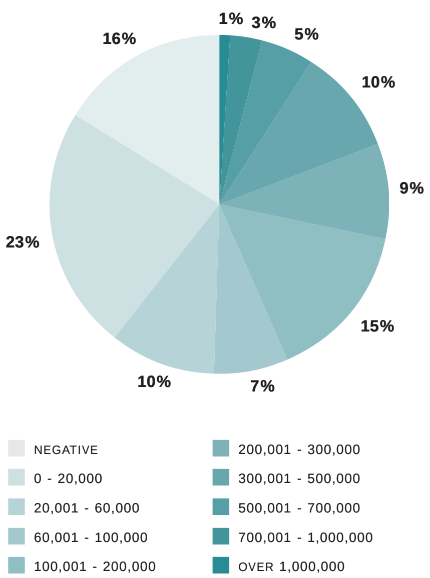
[2] *Statistics New Zealand divides HSS respondents into individuals and couples. When these are added together, the total respondent pool is called 'total economic units' where each individual is one economic unit and each couple is one economic unit. Individuals and couples display different wealth accumulation profiles, but for ease of exposition all the graphs in this paper use total economic units (unless otherwise noted).*

FIGURE 2: MEDIAN AND MEAN WEALTH BY DECILE, 2001



Source: Statistics New Zealand

FIGURE 3: DISTRIBUTION OF WEALTH AMONG ECONOMIC UNITS, 2001



Source: Statistics New Zealand

expected, and this relationship is also observed in many other developed countries.

It is also apparent that many New Zealanders do not have any meaningful assets in an absolute sense. Figure 3 breaks down the distribution of wealth and shows that 16% of the population has negative wealth, 39% of the population has less than $20,000, and about half the population has less than $60,000 in assets. This means that about 800,000 New Zealanders have less than $20,000 in wealth holdings.

The people in the bottom quartile of the wealth distribution tend to:

- be younger than the rest of the population. Almost half of those between 18 and 24 years old have negative wealth and almost 90% have less than $20,000. This is unsurprising because many in this group are studying, have student loan debt, and are only starting to accumulate wealth as they commence working life.
- be an individual rather a couple. The median net worth for individuals is $10,300 compared with $172,900 for couples. This is partly due to differences in the age profiles of the two groups; almost 50% of individuals are under 35 (compared with 23% of couples) and 10% of individuals are older than 75 (compared with 5% of couples). However, even after taking age into account, significant differences remain between wealth

FIGURE 4: WEALTH BY ETHNIC GROUP (COUPLES)

Ethnic group	Mean ($)	Median ($)
European/Pakeha	369,900	209,900
Maori	138,800	34,700
Pacific peoples	58,500	11,100
Asian	224,600	120,100

Source: Statistics New Zealand (2002)

accumulated by the different types of family structure (Gibson and Scobie (2003a)).

- have more dependent children. Couples with dependent children had a lower median wealth ($127,800) than couples without dependent children ($202,300), and wealth falls as the number of dependent children rises. The relationship between wealth and dependent children is partly because people with dependent children tend to be younger than those without.
- be predominantly of Maori or of Pacific Island origin, as shown in Figure 4. This is partly because the Maori and Pacific Islander populations are younger than the Pakeha population, and because these populations tend to earn low incomes. Indeed, Gibson and Scobie (2003a) show that age explains much of the difference in wealth holdings between Maori and other ethnic groups. However, even after taking this into account, there is a significant wealth gap. The large difference between the median and the mean level of wealth for Maori and Pacific Islanders also suggests that the distribution of wealth within these groups is much more unequal than for the overall wealth distribution.

INTERNATIONAL COMPARISONS

To benchmark New Zealand's distribution of wealth we compare it with the distribution of wealth in other Anglo countries (Australia, Canada, the UK and the US). We use these countries as the appropriate international benchmarks for New Zealand's level and distribution of wealth because they have broadly similar policy approaches and preferences; the Anglo countries are a more homogenous group for these purposes than comparing across the entire OECD.

The overall sense obtained from this international comparison is that New Zealand's wealth distribution is roughly comparable to those of other Anglo countries. The top 10% in the wealth distributions in New Zealand, Canada, the US, the UK and Australia all hold over 50% of total wealth.[3] The wealthiest decile in the US holds about two thirds of household wealth, making the US the country with the least equal wealth distribution. The bottom 30% of the wealth distribution in Canada and Australia hold 1% of household wealth and less than 1% of household wealth in the UK and New Zealand.[4]

Using the Gini coefficient as the summary statistic for the current level of wealth inequality, the New Zealand coefficient

(0.69) is similar to that observed in Australia and the UK. And wealth inequality seems to be about twice as high as income inequality in these countries as well.

Over the past decade or so, wealth inequality has tended to increase across Anglo countries. The wealthiest people in the US, the UK and Canada have all become wealthier relative to the rest of the population. Australia appears to be the exception to this trend, with the Gini coefficient measure of wealth inequality remaining constant over the 1986-1998 period (Harding (2002)). This is attributed to the introduction of the compulsory superannuation scheme, which has meant that the asset holdings of low and middle income Australians have increased. Without this scheme, it is estimated that wealth inequality in Australia would have trended upwards in the same way as in other Anglo countries.

Although there is no direct New Zealand evidence available in terms of how the wealth distribution has changed over the past 10 or 15 years, it seems plausible that wealth inequality has increased in line with other Anglo countries. Certainly income inequality has risen sharply over this period in New Zealand (O'Dea (2001)), and the strength in real estate prices over the past decade has conferred a significant financial benefit on existing home owners.

However, although the New Zealand wealth distribution looks approximately similar to these other countries, it appears to differ in one important respect. The wealth holdings of the bottom two wealth deciles seem to be significantly lower in New Zealand than in other Anglo countries. The 16% of the New Zealand population who have negative wealth is a substantially higher proportion than is observed in other Anglo countries. Statistics New Zealand (2002) report that only 6% of Canadian households and 8% of US households had negative wealth. In 2002, only 4% of Australian households had negative wealth (Kohler et al. (2004)).

Although such international comparisons are inherently problematic because of differences in demographic profiles and public policy settings, this comparison looks broadly appropriate with the survey groups appearing to be similar. In all of these countries, negative wealth tends to fall disproportionately among the young, although not exclusively. The high proportion of people with negative wealth in New Zealand does not seem to be due to the student loan scheme as many of the other Anglo countries have some user pays in tertiary education and many of the New Zealanders with negative wealth are unlikely to have been affected by the student loan scheme.

SUMMARY

The distribution of wealth in New Zealand is highly concentrated with over half of the population having effectively no ownership stake in the New Zealand economy. In addition, New Zealand has a relatively high proportion of households with negative wealth.

[3] *Statistics New Zealand (2002) compares HSS results with the 1999 Canadian Survey of Financial Security and the 1998 United States Survey of Consumer Finances.*

[4] *Statistics New Zealand (2002), Kelly (2001), Paxton (2002)*

3 THE PROCESS OF WEALTH ACCUMULATION

This section examines the way in which New Zealand households accumulate wealth. We expect that many young people will have few assets and will be disproportionately represented in the bottom few deciles of the wealth distribution. But as people grow older and spend longer in the workforce, do they systematically accumulate wealth and move up the wealth distribution? Or are there other more powerful determinants of wealth accumulation, like incomes, preferences, and institutions?

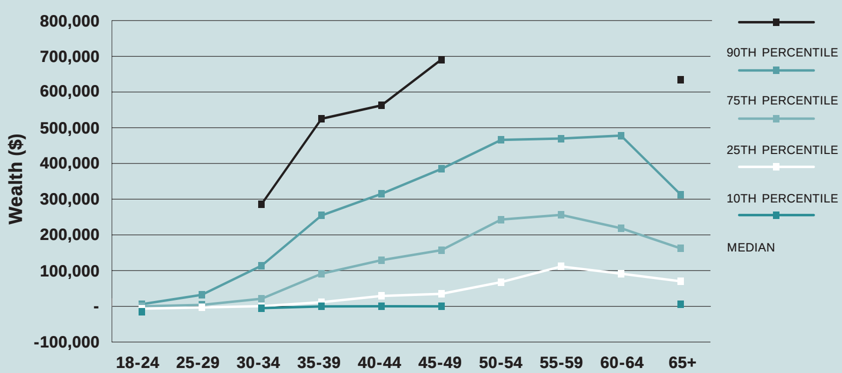
And second, we examine the forms of wealth that New Zealanders choose to accumulate. Do New Zealand households tend to accumulate residential real estate, financial assets or other types of assets? The behaviour of New Zealand households in this respect will be compared with other Anglo countries.

ACCUMULATING WEALTH OVER A LIFETIME?

The analysis so far illustrates a high degree of wealth inequality and a substantial proportion of New Zealanders with no assets. However, many of these people are young and can be expected to accumulate some assets through their working lives. In standard theoretical models of saving and wealth accumulation, people accumulate assets through their working lifetime and then spend down this wealth during their retirement years.

To fully understand this process of wealth accumulation by New Zealanders, we need longitudinal survey data that tracks individuals through time and monitors their financial position. Unfortunately, these data do not yet exist. The Household Savings Survey only captures the level and distribution of household wealth at a single point in time and does not trace people through time to

FIGURE 5: DISTRIBUTION OF WEALTH BY AGE GROUP, 2001 [5]



Source: Statistics New Zealand

[5] The missing observations in Figure 5 are because Statistics New Zealand does not provide data where the population size of these groups is below a threshold level (for confidentiality reasons).

examine how their asset holdings change through their lifetime.

However, we can examine the wealth accumulation process in an approximate manner by examining the wealth holdings of different age cohorts (e.g. comparing the wealth of 55 -59 year olds to those of 35-39 year olds). To the extent that different age cohorts behave in different ways this will not reflect the wealth accumulation profile of individuals, but it should provide a rough approximation of the wealth accumulation process in New Zealand. These data are summarised in Figure 5.

Figure 5 contains several insights with respect to the process of wealth accumulation over a lifetime.

Age is an important determinant of wealth accumulation, but some people do not accumulate any wealth over their lifetime

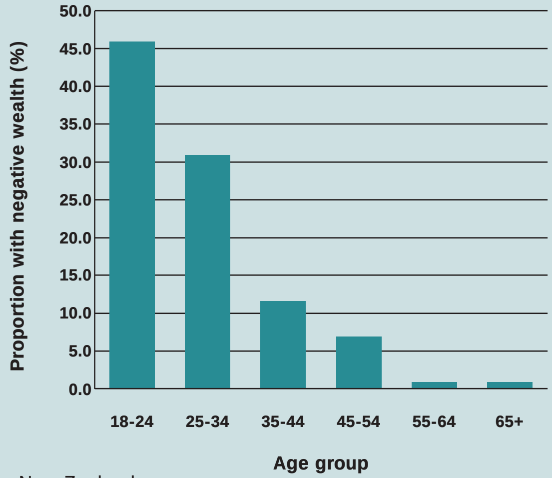
As expected, people accumulate wealth over their working life and then tend to spend down this wealth during their retirement years. Whereas the median wealth for 18-24 year olds is just $100, the median wealth for 60-64 year olds is over $200,000. Similarly, whereas 47% of 18 -24 year olds have negative wealth, only 2% of people aged over 65 have negative wealth. Regression analysis of HSS data confirms that age is an important determinant of the wealth accumulation process (Gibson and Scobie (2003a)).

Figure 5 shows that the median person has accumulated about $250,000 immediately before retirement.

However, given that the median house sale price in 2003 was $305,000 in Auckland and $231,500 in Wellington (DTZ (2004)), this suggests that there will be many people who do not own a mortgage-free house by retirement. Indeed, Harris (2003) notes that 30% of 55-64 year olds still have a mortgage liability.

Moreover, not everyone accumulates wealth as they age and many New Zealanders never acquire assets. Indeed, one of the most striking aspects of Figure 5 is the large number of people who do not accumulate any wealth over a lifetime and have very limited wealth as they approach retirement. People in the bottom decile of the wealth distribution in all age cohorts do not have any holdings of wealth at all. Indeed, the HSS data reveal significant wealth inequality within each age cohort, with about 60% of wealth held by the wealthiest 20% of each age cohort above 35 years. As Statistics New Zealand (2002) notes "This suggests the spread of wealth is not only an attribute of differences in age" (p. 25).

FIGURE 6: PROPORTION OF NEW ZEALANDERS WITH NEGATIVE WEALTH BY AGE GROUP, 2001



Source: Statistics New Zealand

One way of illustrating this point is to examine the proportion of each age cohort that has negative wealth. Figure 6 shows that this proportion falls as people age, but 7% of 45-54 year olds still have negative wealth and some people still have negative wealth just prior to retirement.

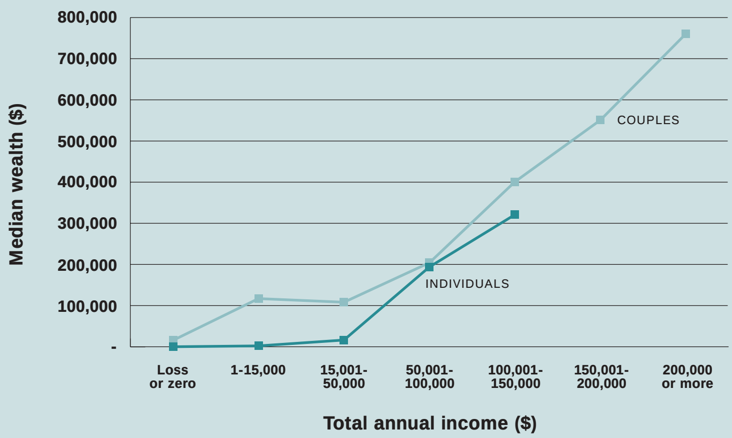
Figure 6 also shows that negative wealth is not just driven by student loan debt among the student population and recent graduates. 12% of the 35-44 age group in 2001 had for example negative wealth, a group unlikely to have been significantly affected by the student loan scheme as the scheme was only introduced in 1992. Other factors are likely to be driving this negative wealth situation.

This behaviour means that in addition to having little wealth through their lifetime, a large number of New Zealanders will be highly reliant on national superannuation as their major source of retirement income.[6] Perry (2003) documents the heavy reliance of New Zealanders on national superannuation for retirement income as opposed to income from private superannuation schemes, other financial assets, and rental property. For the bottom eight income deciles of people over 65, 80% of their income comes from the national superannuation scheme. And for the bottom six income deciles, the proportion is 92%.

One possible explanation for this situation is that people on low incomes make a deliberate, rational decision not to accumulate wealth because of the existence of a publicly provided pension. For some people it is possible to maintain their pre-retirement consumption level after retirement without saving privately, and by relying

[6] National superannuation payments are set at 65% of the average wage. In 2003, this meant a married couple received a gross total of about $23,000 and a single person living alone would receive a gross total of about $15,000.

FIGURE 7: THE RELATIONSHIP BETWEEN INCOME AND MEDIAN WEALTH, 2001



Source: Statistics New Zealand (2002)

on the public superannuation payments (Gibson & Scobie (2003b)). However, there are many people for whom this is unlikely to be the case. And the fact remains that many people do not have access to a substantial pool of assets at any stage of their life.

Income also affects the ability of people to accumulate wealth

The level of income will also affect the level of wealth that is accumulated over a lifetime. Those on low incomes will struggle to accumulate wealth as they move through their working life, whereas those on high incomes can expect to accumulate significant amounts of wealth over their lifetime.

As shown in Figure 7, HSS data indicate that the level of wealth that New Zealanders hold is linked to their income; unsurprisingly those on higher incomes tend to have larger wealth holdings. The interesting element of Figure 7 is that the relationship between income and wealth is much stronger at income levels above $50,000. For couples, wealth holdings only start to increase with income above about $50,000, with couples whose household income is below $50,000 seeming to struggle to accumulate wealth. A similar relationship seems to obtain for individuals. One interpretation of this relationship is that people need to be earning above these threshold levels in order to have sufficient disposable income to be in a position to put money aside.

And these data suggest that this condition is widespread. Given that the median household income is about $50,000 (and about $30,000 for individuals), this suggests that at least half of the population are on incomes that make it difficult to save and to accumulate wealth. Although some people can expect to earn higher incomes as they age, the incomes of many New Zealanders will never exceed the median income. For these people, the ability to save and to accumulate wealth is compromised.

"I feel there is a lot of insecurity about the future... I hope to have a well paid job ($33,000 a year). Childcare is really expensive and it is impossible to save. Even if I try hard, I can only save $2 to $3 a week and the budget will be too tight. So I am not saving right now."

FEMALE, 28, SINGLE MOTHER OF TWO CHILDREN, BENEFICIARY

"I am not looking ahead because all I can see is my debts... It would be difficult to put aside an extra amount. At this moment, we have to manage on $100-$150 per week – so, you can't really save on that!"

FEMALE, 33, AUCKLAND, 3 CHILDREN, FAMILY INCOME OF $30,000 – $50,000

This strong relationship between income and wealth accumulation is consistent with previous studies that have found that household saving is heavily concentrated in the top few income deciles. For example, using Household Expenditure Survey data, Gibson and Scobie (2001) found that over 50% of total household savings between 1984 and 1998 were generated by households in the top income decile and that the poorest three deciles generated negative savings on average.

This relationship is also consistent with the international empirical literature on savings behaviour that suggests that income levels are a more powerful determinant of savings behaviour and wealth accumulation than age. Coleman (1998) notes that the international evidence indicates that income is a more powerful determinant of saving behaviour than age, in terms of both the amount that is saved and also the proportion of income that is saved.

But other factors also matter significantly in the wealth accumulation process

But age and income can only explain a small amount of the variation in wealth holdings between people. Indeed, Gibson & Scobie (2003a) find that age, income, as well as other individual characteristics like education, inheritances, family structure, and occupation, can only explain about 40% of the variation in wealth across people. This suggests that other factors matter importantly in driving wealth outcomes for individuals and households. In particular, individual preferences over saving and the institutional environment that people face are likely to have an important effect.

In terms of preferences, some people prefer spending today rather than saving for tomorrow and value maintaining a high quality of life today. Other people prefer saving now so that they have more available to spend in the future. These preferences will exert a significant influence over the amount of wealth that individuals accumulate over a lifetime.

And the institutional environment also matters. For example, evidence from the Household Savings Survey shows that people who participate in employer-based superannuation schemes save substantially more than those who do not have access to such schemes, controlling for all other relevant characteristics of the individual (Scobie & Le (2004)). As a result, participation in employer-based superannuation schemes has a significant effect on wealth.

Our interviews also provide support for the importance of the institutional environment around savings. We spoke with 19 young professionals, of whom ten were participating in some superannuation scheme. Of these ten, eight were participating in schemes that their employer or the government had provided and/or encouraged them to join (often with some matching contribution). The ready access to these schemes encouraged them to start saving for their retirement earlier than they would have in the absence of institutional support. There was no apparent difference in the personal characteristics of the people who were participating in employer-based superannuation schemes and those who were not, aside from the provision by the employer.

"I was taught to manage my money – to be able to cover purchases down the track. It was really good training. You "get addicted to saving" and when you finally buy those purchases you've saved for, you appreciate the cost. I'm different from my friends who just put purchases that come up on Visa. I plan for purchases (e.g. car registration, warrant) – I have constant savings to be able to cover these sorts of costs."

FEMALE, 22, WELLINGTON, STUDENT

"I find it hard to save. I was never taught to save when I was young and despite getting some excellent advice on how to, I still find it a struggle. Although I am on a tight budget now and things seem to be working in terms of debt repayment, the actual savings component is small."

MALE, 32, AUCKLAND, SINGLE,
SALARY OF $75,001 – $100,000

The importance of the policy and institutional environment around savings is also clear from the international empirical evidence (Choi et al. (2001a,b), Madrian & Shea (2001)). Institutions matter because many people do not make fully rational decisions with respect to savings, and institutions that assist people to save – or that make the savings decision easier – can have a profound, positive effect on wealth accumulation.

COMPOSITION OF ASSET HOLDINGS

To the extent that New Zealanders accumulate wealth, they make decisions about what type of assets to accumulate. New Zealanders have demonstrated a pronounced preference for accumulating wealth in the form of housing rather than in the form of financial assets.

Home ownership rates were around 68% in 2001. Home ownership is also broadly distributed across the population; although home ownership rates increase with income, ownership rates are about 50% for the lowest income group rising to about 80% for high income households (Statistics New Zealand (2002)). Many New Zealanders have accumulated wealth by saving for a deposit on a house, increasing their equity stake by paying off the mortgage and benefiting from capital gains.

Other widely held assets include motor vehicles (77% of the population) and bank deposits (91% of the population). However, aside from bank deposits, financial assets are not widely held by New Zealanders. Superannuation assets are held by just 21% of the population, shares by 21%, managed funds by 9%, and other financial assets like bonds by just 5%.

FIGURE 8: HOUSEHOLD BALANCE SHEETS

Asset type	Proportion of total asset value (%)
House living in	36
Other property[7]	10
Businesses	9
Farms	9
Bank deposits	6
Superannuation	6
Trusts	6
Motor vehicles	4
Managed funds	3
Shares	3
Collectibles	2
Life insurance	2
Maori assets	2
Money owed to respondent	1
Other financial assets	1

Source: Statistics New Zealand (2002)

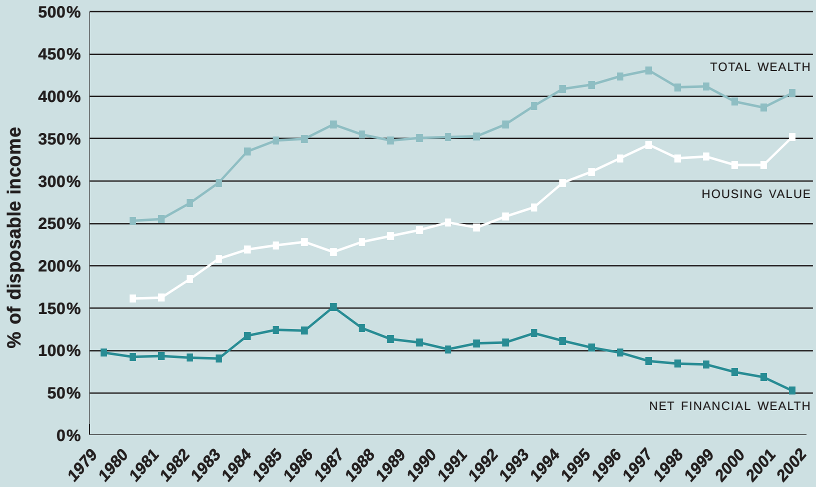
Ownership of financial assets is highly concentrated among the top few wealth deciles; 89% of individuals and 75% of couples with financial assets are in the top half of the wealth distribution. Financial asset holdings and property seem to be complements; households with financial assets tend to also hold property and households without property tend to hold limited financial wealth.

Moreover, those people who do hold financial assets tend to have relatively low amounts in these forms. The median value in rateable property is $135,000 for individuals and $175,000 for couples, compared with less than $30,000 for superannuation, managed funds and other financial assets and $5000 for shares. Indeed, New Zealanders hold more of their total wealth in motor vehicles than shares: the total value of motor vehicles is $16.9 billion compared with $14 billion in shares (Statistics New Zealand (2002)).

Taken together, this means that housing is the dominant asset in New Zealand household balance sheets. According to the 2001 Household Savings Survey, homes made up 36% of total asset value and financial assets make up about 20% of total asset value (Statistics New Zealand (2002)). All property, including commercial and rental property totalled 46% (excluding property held in trust).

[7] *"Other property" includes the following categories from the Household Savings Survey: timeshares, holiday homes, rental property, overseas property, commercial property and other property.*

FIGURE 9: HOUSING WEALTH AND FINANCIAL WEALTH, 1979-2002



Source: Reserve Bank of New Zealand

CHANGES THROUGH TIME

Although the Household Savings Survey provides the most comprehensive measure of household wealth in New Zealand in 2001, it does not provide any time series information. However, the Reserve Bank provides a consistent, but less comprehensive, household balance sheet series, that can be used to examine how the composition of household balance sheets have changed through time. The Reserve Bank series focuses on ownership of housing and financial assets.

Figure 9 shows that housing wealth has risen strongly relative to financial wealth over the past decade (refer Thorp and Ung (2000, 2001) for a more detailed discussion). New Zealand households now hold about seven times as much wealth in the form of housing as they do in financial assets.

Real estate prices have increased strongly over this period, while financial wealth has declined. The decline in financial wealth is partly because households have been borrowing more in the form of mortgages; as house prices increase, the required mortgage size also increases. And there is anecdotal evidence that people are consuming on the back of the increased housing wealth and not paying off their mortgages as quickly (or withdrawing equity to finance consumption). New Zealand's household savings rates have also reduced over this period. In sum, New Zealand households have been increasing the already high share of housing in their household balance sheets over this period.

Why do New Zealanders invest in property?

"It's the good old Kiwi dream to own your own home. The main reasons are security (we can always sell if we need to and we have no worries about landlords) and lifestyle (we enjoy renovation)."

FEMALE, 27, MARRIED, WANGANUI

"I am saving enough in terms of building equity in my house, so t hat over time that will mean that I will need less for superannuation… the main advantage of a house is building up equity rather than providing income to someone else."

FEMALE, 26, WELLINGTON

"We decided to buy a home as we were renting. In five years, we rented six houses. We realised it was a stupid situation, especially with a young child. Owning a house provides financial security and stability for now and for the children's future."

FEMALE, 40, MARRIED WITH 3 CHILDREN, AUCKLAND

"I would love to own my own home. I've been renting for the last 16 years. I could have had it on my own... National were offering a rent-to-buy scheme. I should have taken it then. Then, it was only $65,000…It is hard work on the benefit ... but in the long run, you can get a house. My friend did it. She bought her house, struggled. It was her own house in the end just using the DPB... You got to leave something for your kids. Otherwise, the kids have to rely on an aunty/uncle. If you own your house, there's security."

FEMALE, 39, 5 CHILDREN, AUCKLAND, DPB

INTERNATIONAL COMPARISONS

Home ownership is an important form of wealth accumulation in other Anglo-American countries as well, with home ownership rates at about the same level as in New Zealand. The level of real assets (mainly housing) as a share of disposable income is about the same in other Anglo countries as it is in New Zealand (Thorp & Ung (2000)).

However, New Zealand household balance sheets look quite different from other countries in terms of the absence of other types of assets. The key difference is that the residential home forms a smaller proportion of household wealth in other Anglo countries, as households have more significant holdings of financial assets.

The other difference between New Zealand and other Anglo countries is the broad distribution of financial asset ownership within the population. Aizcorbe et al. (2003) estimate that about 52% of US households owned shares, either directly or indirectly, in 2001 (this ratio increased strongly through the 1990s). And the compulsory superannuation scheme in Australia has led to a very broad ownership of superannuation assets in the population; indeed, some people on modest incomes have financial assets but no housing asset. It is much less common in New Zealand than in other Anglo countries for people to own both housing assets and financial assets.

The trend in New Zealand towards a higher share of real estate in household balance sheets over the past decade is also at variance with the experience in other countries in which financial wealth has grown relative to housing wealth (Claus & Scobie (2001)).

So the challenge is not to explain high rates of home ownership and the investment in housing in New Zealand – New Zealand's behaviour in these respects is similar to that observed in other Anglo countries – but the relatively low and declining share of financial wealth.

The differences in household balance sheets appear to be strongly influenced by the policy and institutional environment. New Zealand has historically encouraged home ownership – and still maintains some tax advantages – but has not put the same policy effort into encouraging other forms of asset accumulation. This contrasts starkly with all other Anglo countries who have combined schemes to encourage home ownership, like mortgage interest deductibility, first home ownership grants and so on, with policies that either require or encourage (through tax concessions) saving in the form of financial assets for retirement and for other purposes. The greater emphasis on private provision of retirement income in other Anglo countries has also led to higher private holdings of financial assets in other Anglo countries.

SUMMARY

In summary, New Zealand households make asset choices that look quite different from other Anglo countries. New Zealand is distinct in terms of the low level of financial wealth and also the concentrated distribution of holdings of financial assets. The general process of wealth accumulation in New Zealand is to buy a house and pay off the mortgage, and then invest in financial assets with any surplus wealth.

These differences can be partly explained by the greater reliance on private provision for retirement income in other countries (compared with New Zealand) and also the existence of pro-savings policies in other countries. Countries like Australia and the UK have policies that promote both home ownership and financial asset ownership, whereas New Zealand only has policies that advantage home ownership.

4 THE LEVEL OF WEALTH

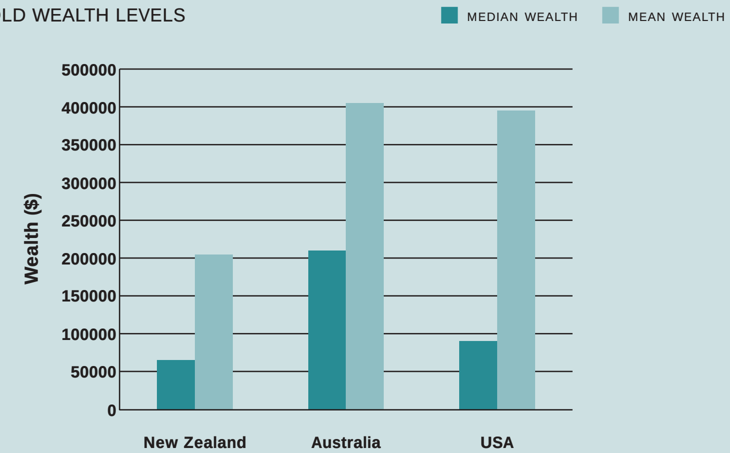
Although the distribution of household wealth looks broadly similar in New Zealand as in other Anglo countries, the level of household wealth is markedly different. The amount of wealth accumulated by New Zealanders is substantially lower than in all other Anglo countries, and indeed most other OECD countries.

At an individual level, New Zealanders accumulate significantly less wealth over a lifetime than people in other countries. For example, the median wealth holding of an Australian household just before retirement (55-64 years old) in Australia is A$448,000 and the average wealth for households in this age cohort is A$702,000 (Kohler et al. (2004)). This compares to a median wealth holding of about $250,000 for 55-59 year olds in New Zealand, as shown in Figure 5. Overall, for every age cohort, the median wealth holding in Australia approximates the top quartile wealth holding in New Zealand.

Across the entire wealth distribution, the level of wealth is lower in New Zealand than it is in other countries. That is, the rich in New Zealand are less wealthy than their counterparts in other Anglo countries and the middle in New Zealand are less wealthy than the middle class overseas. This is confirmed using several different data sources. Figure 10 describes the level of household wealth for New Zealand, Australia, and the US, using HSS data and data from similar surveys in these other countries.

Reserve Bank of New Zealand data also show that New Zealand's household wealth is considerably lower than other developed countries. Claus & Scobie (2001) report that New Zealand household wealth expressed as a percentage of disposable income is significantly below our OECD peer group. To give a sense of the orders of magnitude, New Zealand's household wealth is about 400% of disposable income in 2002 (as shown in Figure 9) compared

FIGURE 10: MEDIAN AND MEAN HOUSEHOLD WEALTH LEVELS



Source: Statistics New Zealand (2002), Aizcorbe et al. (2003), Kohler et al. (2004)
Note: these levels are expressed in local currency terms (NZD, AUD, and USD respectively)

with household wealth of about 700% of disposable income in the US and the UK and 600% in Australia (all in 1999).

Figure 9 also gives a sense of how the level of household wealth has changed though time in New Zealand over the past two decades. Household wealth in New Zealand has increased slowly over the past decade, driven primarily by increases in housing wealth, despite having benefited from strong economic growth over the past decade. In contrast, total household wealth across many other developed countries has grown strongly over the past decade, driven by increases in both housing wealth and financial wealth (Claus and Scobie (2001)). So New Zealand households have low household wealth relative to other countries, and the level of wealth is not growing as strongly as in other Anglo countries.

FINANCIAL WEALTH

Unsurprisingly, given the relatively low share of financial wealth in New Zealand household balance sheets, the overall level of New Zealand's household financial wealth is also low. Reserve Bank data, which express household financial wealth as a proportion of disposable income, show that New Zealand's level of financial wealth is substantially lower than other Anglo countries, despite also having a significantly lower level of disposable income.

New Zealand's low level of household financial wealth is due primarily to the absence of financial assets. Although New Zealand has high levels of household debt, as noted in Figure 12, these are not out of line with comparator countries. In recent work for the Bank of International Settlements, Debelle (2004) provides data on household debt levels for a range of developed countries. It is apparent from these data that New Zealand's household debt to disposable income ratio is similar to that of Australia, the UK and the US. And other countries, including Japan and some European countries, also have similar levels of household debt.

But holdings of financial assets by New Zealand households are considerably lower than elsewhere. As Brash (2002) notes, the key issue is that "we do not have as many assets as householders in other developed countries do. Basically, we have borrowed to finance consumption or relatively unproductive investments".

The other significant difference between New Zealand and other countries in terms of household financial wealth is that whereas household financial wealth has increased – often quite strongly – in other developed countries, it has declined in New Zealand over the past decade. Indeed, New Zealand is the only country for which we have data where household financial wealth has declined over the past decade from about 100% to 50% of disposable income.

This decline in financial wealth has been driven by a substantial increase in household debt, with very little increase in holdings of financial assets by households. As noted in Figure 12, household debt as a share of disposable income has more than doubled since 1990 and now stands at about 130% of disposable income. This is high, and has been a substantial increase, but this experience is far from

FIGURE 11: FINANCIAL WEALTH AS A PROPORTION OF DISPOSABLE INCOME

Source: Reserve Bank of New Zealand

unique. Debelle (2004) observes that most developed countries have experienced a substantial rise in household debt over the past 15 years, as they have liberalised financial markets, and so New Zealand is not unique in this respect.

In New Zealand, the increase in household debt has been partly driven by increased mortgage financing as house values have appreciated; people are borrowing to invest in real estate and are not making investments in the form of financial assets. In addition, consumer credit has risen sharply over the past decade as households borrow to finance consumption spending.

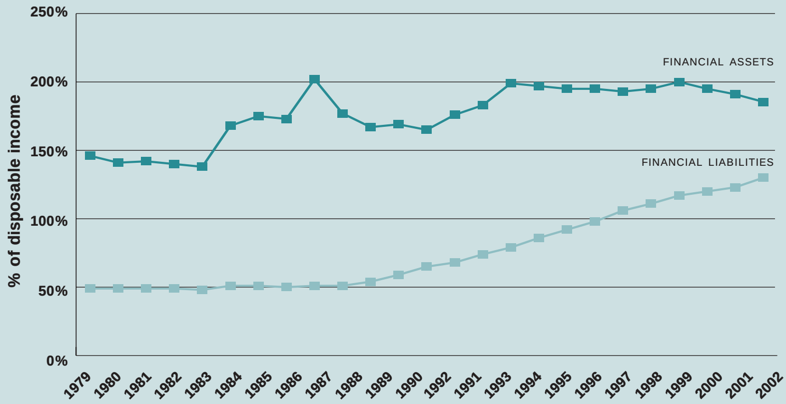
The low level of household financial wealth is reflected in the macroeconomic data. New Zealand has low and declining household savings rates, has run large and persistent current account deficits for the past three decades, and has accumulated one of the largest stocks of external debt in the OECD in the process.

DISCUSSION

In making international comparisons of household wealth, it is important to understand the effect of policy settings on the amount of wealth accumulated privately in different countries. In countries with generous public provision of retirement income, households do not have to accumulate as much wealth privately because they can rely on ‘public wealth’ in the form of a public pension. For example, in addition to privately accumulated wealth, retired New Zealanders have access to public wealth; the present value of New Zealand superannuation payments.

However, this explanation is not sufficient to fully explain the substantial wealth differences between New Zealand and other Anglo countries. Citizens in Australia, Canada, the US, and the UK also have significant holdings of public superannuation wealth. And as Brash (2002) notes, this explanation "does not really explain either why our

FIGURE 12: FINANCIAL ASSETS AND FINANCIAL LIABILITIES AS A SHARE OF DISPOSABLE INCOME



Source: Reserve Bank of New Zealand

savings performance is so much inferior to that in, for example, most European countries (where the social welfare net is at least as generous as it is in New Zealand)".

It is also worth noting that the reduction in the level of household financial wealth, and the nominal increase in overall household wealth, over the past decade appears inconsistent with an explanation that the difference in wealth is due to differences in the generosity of public provision. If it were, we would have expected to have seen an increase in household savings over the past decade as households attempted to replace the reduced public superannuation wealth.[9]

However, other types of policy settings – those that focus on encouraging saving and asset accumulation – do have a significant effect on the levels of household wealth across countries. It is variation in these policies across countries that seems to offer a more useful guide to why New Zealand's household wealth is much lower than in other Anglo countries. The evidence indicates strongly that savings policies do lead to higher household savings. For example, recent Reserve Bank of Australia analysis shows that the compulsory superannuation scheme has resulted in a significant lift in household savings, and thus in household financial wealth. Connolly & Kohler (2004) estimate that just under two thirds of the compulsory savings has been new savings. Similarly, the evidence on US policies that encourage savings through tax advantaged accounts (401(k)'s and IRA's) is that they lead to higher household and national saving (Bernheim (1999) reviews this literature).[10]

[9] *The generosity of national superannuation has reduced over the past 20 years; the replacement rate was 80% of the average wage in the 1980s compared to the current replacement rate of 65%.*

[10] *Interestingly, the institutional context around these programs seems to exert a profound effect; for example, whether employees are automatically enrolled in these schemes by their employers (Choi et al. (2001a,b)).*

New Zealand does not have any deliberate wealth accumulation policies, like savings policies. And private provision of the institutional context that supports savings has also fallen over the past decade, driven in part by changes in the policy environment. Harris (2003) notes that the proportion of the work force that is covered by a registered employer-based superannuation scheme fell from 22.6% in 1990 to 14.6% in 2001.

In sum, the existence of broad savings policies in other Anglo countries and their absence in New Zealand seems to provide a key reason for the lower level of overall household wealth and household financial wealth in New Zealand.

SUMMARY

New Zealand households have a considerably lower level of wealth than most other developed countries. Moreover, this is trending in a different direction from most other countries with New Zealand household financial wealth moving lower while it has been increasing in other countries. Part of the disparity between New Zealand and other Anglo countries is due to variation in policy settings (like the generosity of public superannuation), but this is unlikely to be the major determinant of the variation. Nor is it obvious why New Zealanders in the aggregate would have preferences that systematically favour lower household savings relative to other Anglo countries who save more.

Rather, it seems that the policy and institutional context matters importantly in terms of affecting outcomes. Other Anglo countries encourage or require the accumulation of financial assets in a way that New Zealand does not, and this seems to be a key reason why households in these countries have higher financial and overall wealth than New Zealand households.

5 LOOKING AHEAD

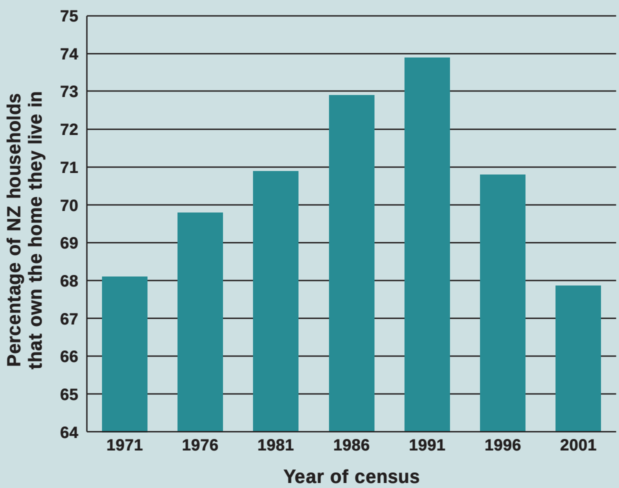
The previous sections have summarised the data on the level and distribution of household wealth in New Zealand. The situation currently observed reflects the economic, social and policy environment that has existed over the past several decades. This section examines how this situation is likely to evolve over the next several decades, and the degree to which the environment surrounding wealth accumulation is changing and is likely to change into the future. How is the current cohort of under 30's likely to fare in terms of accumulating wealth over their lifetimes? And what does this imply for the future level and distribution of New Zealand's household wealth?

In general, the environment surrounding the wealth accumulation process in New Zealand has been supportive over the past few decades. Indications are, however, that the environment for wealth accumulation in New Zealand has become less encouraging over the past decade and is likely to move further in this direction over the next few decades. And these trends appear to be structural rather than transitional in nature.

The policy environment around wealth accumulation in New Zealand has changed substantially over the past two decades. In particular, many policies that successive governments had in place to assist and encourage people to accumulate wealth have been discontinued; for example, policies around assisted home ownership, free tertiary education, and other aspects of the formal and informal welfare system. Although some of these policy changes may have been necessary, no other policies have been introduced to provide alternative methods of wealth accumulation, such as policies to encourage private saving. These changes will make wealth accumulation more difficult for many New Zealanders.

This is likely to have already had an adverse effect on both the level and distribution of wealth – as indeed has been observed in other OECD countries. Although we do not have New Zealand time series data to enable us to determine whether wealth inequality has increased in New Zealand over the past decade or so, there is circumstantial evidence to suggest that it has. For example, income inequality has risen sharply in

FIGURE 13: HOME OWNERSHIP RATES, 1971-2001



Source: Statistics New Zealand

New Zealand over the past 20 years (O'Dea (2001)), and existing home owners have benefited from windfall gains as house prices have increased significantly over the past decade. Indeed, the increase in wealth inequality may have been more acute in New Zealand than in some other Anglo countries because there has been no deliberate policy action to offset this.

This section focuses on three major trends that will continue to affect the wealth accumulation process by New Zealanders over the next few decades, and examines how these will affect the level and distribution of ownership in New Zealand. The three trends examined are the declining rates of home ownership, the increasing student loan debt, and changes in consumption, saving and borrowing behaviour by households. Although these areas are distinct in some regards, they combine to exert a significant effect on the wealth accumulation process by New Zealanders.

DECLINING HOME OWNERSHIP

Historically, home ownership has been the main form of wealth accumulation for most New Zealanders. As Figure 13 illustrates, home ownership rates rose steadily from the early 1970s to the early 1990s, peaking at 73.8%. However, since 1991, home ownership rates have fallen by six percentage points, from 73.8% to 67.8%, reversing the increase over the previous 20 years. This is a very significant fall over a short time period, albeit from a high level.

The steep decline in home ownership rates has been particularly acute among younger age groups (DTZ (2004)). Whereas overall home ownership rates dropped by six percentage points between 1991 and 2001, ownership rates fell by 12.7 percentage points for 25-29 year olds, 12.5 percentage points for 30-34 year olds, and 10.4 percentage points for 35-39 year olds. The decline in home

"Home ownership rates are falling because, for younger people, it's a combination of student loans, choosing an inner-city lifestyle, delaying family formation and rising house prices."
FEMALE, 28, WELLINGTON, RENTER

"Home ownership is less of a priority for my age group because we're more focussed on OEs and other options... having a house/car ties you down... the "Kiwi dream" has changed from a white picket fence and kids to more travel and more consumption."
MALE, 24, WELLINGTON, RENTER

"I think trying to get into the house market these days is hard, and the longer you are not in it, the harder it is to get in."
FEMALE, 31, AUCKLAND, RENTER

"It is hard for people to get the deposit together to break into the housing market."
FEMALE, 26, WELLINGTON, HOMEOWNER

ownership rates has also been acute among single parent households. Delaying home ownership means that there is less opportunity to accumulate wealth through a lifetime.

Declining home ownership rates partly reflect changing preferences, particularly among the young. Many people prize flexibility, and place priority on goals like travel and maintaining a certain lifestyle, and do not want to tied down with a mortgage.

But part of the decline in home ownership is also likely to be due to worsening affordability, reflecting the difficulty of entering the housing market by first home buyers. Indeed, the data show that housing affordability has worsened over the past decade (Crews (2004)). The need to repay student loan debts is also likely to make it more difficult for many young New Zealanders to assemble the required deposit to break into the housing market.

The sharp decline in home ownership rates in New Zealand over the past decade contrasts with the experience of other Anglo countries over this period, who presumably have roughly similar preferences around home ownership as New Zealand households. Home ownership is rising in the UK, US and Canada even though affordability has worsened in the UK.[11] New Zealand historically had the highest rates of home ownership among these countries, but this is no longer the case.

Australian home ownership rates seem to have declined slightly over the past decade, and are now approximately 70% – slightly higher than in New Zealand. Australia has also experienced a reduction in home ownership rates among the young (Kelly et al. (2003)). The Productivity Commission (2003) provides evidence that suggests that the age of first home buyers has increased over the past decade.

Irrespective of whether home ownership is seen as desirable in itself – and whether the decline in home ownership rates is

[11] Statistics Canada (2003), US Department of Housing and Urban Development (2004), Australian Department of Family and Community Services (2003), Burrows (2003).

due primarily to changing preferences or reduced affordability – the fact remains that home ownership has been the primary form of wealth accumulation for New Zealanders. Research shows that on average the elderly have high living standards relative to other population groups, much of which can be attributed to high rates of home ownership among this group (Hong and Jensen (2003)). The living standards of most current older people are high partly because of high mortgage- free home ownership, assisted by home ownership promotion policies from the 1930s to the 1970s. People were able to purchase homes during their working lives leading to low accommodation costs in retirement, and also allowing them to benefit from a substantial rise in the value of their home.

To the extent that home ownership is no longer the source of wealth accumulation for an increasing number of New Zealand households, there are implications for the ability of New Zealanders to successfully accumulate wealth over their lifetime. Obviously if people were making a deliberate choice to accumulate wealth through assets other than housing, the decline in home ownership rates would not be of particular concern from a wealth accumulation perspective. But this seems not to be the case.

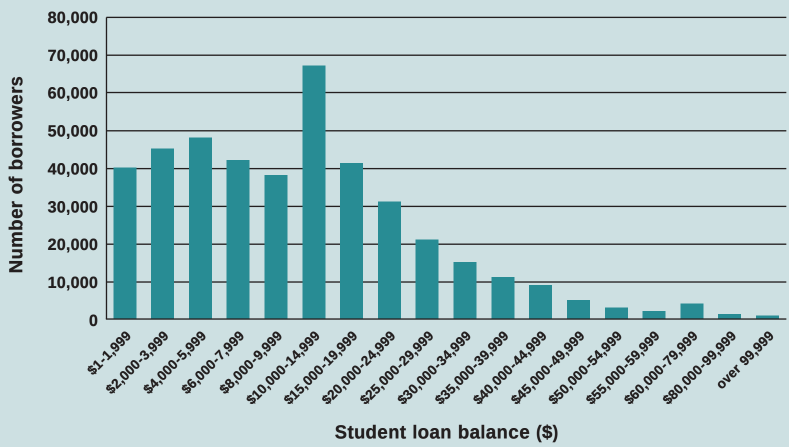
Although there has been some increase in financial asset holdings, financial liabilities have increased even more rapidly, leading to a decline in household financial wealth. And financial asset ownership is heavily concentrated in the top few wealth deciles. Many people have neither housing nor financial assets. Indeed, housing has become even more dominant in household balance sheets. This trend does not seem to represent a rebalancing of household portfolios from real estate to financial assets.

The experience over the past decade with the simultaneous decline in home ownership rates and the strong increase in house prices means that the distribution of household wealth is likely to have become more unequal. Existing home owners have experienced a strong increase in household wealth, while prospective home owners have not benefited and face an increase in the cost of housing. In some senses, this represents a transfer of wealth from prospective home owners to existing home owners.

Housing policy in New Zealand

The New Zealand government has a long history of providing support for home ownership, dating to the provision of loans and advances for home ownership in the 1890's (DTZ (2004) provide a good historical summary of housing policy in New Zealand). From the 1930s to the 1970s, a key policy was government support to first home buyers through subsidised home loans. In addition, assistance was provided to state tenants to buy their homes, and families were able to capitalise the family benefit and use this for a deposit on a home. Together, these policies led to very high rates of home ownership in New Zealand.

FIGURE 14: NUMBER OF BORROWERS BY STUDENT LOAN BALANCE, MARCH 2004



Source: Inland Revenue Department (2004)

Going forward, the declining home ownership rates, particularly among the young, place a premium on finding alternative vehicles for wealth accumulation to enable New Zealanders to advance financially over their lifetime.

GROWING STUDENT DEBT

Student loan debt has become the largest non-housing debt category for households, and is growing rapidly. In 2001, student debt totalled $3.5 billion. But by March 2004 total student loan debt had increased to $6.2 billion, a very rapid increase (IRD (2004)). The Treasury (2003) projects that student loan debt will increase to $10 billion in the next 5 years, and the Ministry of Education (2003) project that total student loan debt will be $15 billion by 2020. The scheme is expected to mature at around this date, with growth in the overall stock of debt slowing.

Student loan debt is becoming increasingly pervasive, with a large and increasing share of the population having a student loan. In March 2004, over 425,000 people had outstanding student loan debt. And as at June 2003, about 130,000 had repaid their student loan debt in full. This means that over 550,000 New Zealanders either currently have, or have had, a student loan.

Currently the average student loan balance is $14,559 and the median loan balance is $9,838. Just under half of the outstanding loan balances are under $10,000 and about 75% of loan balances are less than $20,000. However, over 100,000 New Zealanders have student loan balances of $20,000 or more and about 25,000 have balances over $40,000 (IRD (2004)).

The Ministry of Education (2003) estimates that students take over 9 years on average to repay their student loan (and this varies significantly by ethnicity and gender). The length of time it takes to repay a student loan is also likely to increase through time, as average student debt increases.

It is likely that the growing number of young people with significant amounts of student debt will have a substantial social and economic impact. This debt is likely to significantly constrain their ability to accumulate wealth over a lifetime – certainly relative to their parents' generation. As graduates repay their student loans into their late twenties and early thirties, they are likely to delay asset accumulation. Statistics New Zealand notes that "The cumulative student loan debt held by this group could lead to an inability to save and accumulate assets when starting their working life" (2002, p. 102). Indeed, this is one likely reason why home ownership rates have been declining among the young. And student loan debt may also have broader effects in terms of delaying life decisions like marriage and children.

These effects are not yet strongly apparent in the data because the scheme is still growing. For example, although student loans were found to have a significant effect on wealth accumulation and on home ownership in analysis of the HSS data (Gibson & Scobie (2003a)), the effects were not as strong as they are likely to become.

In principle, of course, education leads to higher incomes through a lifetime and student loans can be seen as an investment in a higher lifetime income stream. However, in order to make graduates with student debt as well off as previous cohorts of students who graduated without student debt, the income stream they earn will have to be significantly higher. Yet starting salaries for graduates do not appear to have

Effects of student loans

"It stopped me from getting married and buying a home earlier."

MALE, 31, HAS PAID OFF LOAN, AUCKLAND

"I know of friends who have about $50,000 [in student debt] and who know that they'll never be able to pay it back. It effectively cuts their earnings for the rest of their lives, so they'll find it that much harder to save for property, retirement etc."

FEMALE, 27, LONDON,
GRADUATED WITH $20,000 LOAN

"I don't know... every now and then, I lie in bed and it makes my stomach churn... the interest rate... All it looks like to us is that the government is trying to make money off us when we try to get an education; not trying to help us at all."

FEMALE, 23, STUDENT, $30,000 STUDENT LOAN, WELLINGTON

"I can't even imagine ever being able to buy a house... quite a long-term goal... in 15 – 20 years time I would have a deposit [given the time needed to pay off my student loan] I think delayed first home ownership is a problem – it affects all kinds of things like starting a family... idea that you have that kind of security before starting a family."

FEMALE, 22, STUDENT, $20,000 STUDENT LOAN, WELLINGTON

"One of my colleagues has a big student loan, which takes 40% of his income. He had to take more loans to be able to live. His overall debt is now bigger (additional $20K loan at 26% interest). He is now at the stage of not caring, of giving up. His lifestyle is out of control, he spends a lot of money and he indulges himself in the luxury of consumption... He has lost hope."

MALE, 40, AUCKLAND

"I have watched my sister try and get a mortgage – even though they say it doesn't affect this – student loans are definitely taken into account. She spent so long trying to pay back her student loan, that she hasn't had any time to start saving for a deposit... In the end, my Dad had to get involved as a guarantor. I am definitely worried... I can't see myself doing anything other than renting for an extremely long time... It's a second-best option. Renting is just giving your money to someone else. I want the security of my own house... I don't want to get started so late that I am still paying it off when I am old."

FEMALE, 23, STUDENT, $30,000 STUDENT LOAN, WELLINGTON

"[My student loan's] going to [have effects on my life] because it will keep growing. There goes your deposit for your house. Hopefully, [my daughter] will get scholarships – I want to find an alternative to student loans because it's a lot. I should have thought about it twice before doing it."

FEMALE, 20, DPB, SINGLE PARENT OF ONE CHILD, $7,000 STUDENT LOAN

"Having a student loan has had lots of effects on my life – I left my previous job partly because of the increase in income in the current job which would enable me to lower my student loan quicker. I have chosen not to do further post-graduate study because of my current loan and because it would increase further... I can't buy a home now because of the loan. Finally, it is quite stressful – I worry about it a lot, although not as much as I used to."

FEMALE, 26, $50,000 LOAN, WELLINGTON

increased to compensate for the increased debt burden (New Zealand Vice Chancellors Committee (2001, 2003)). It therefore seems likely that paying off a student loan will make wealth accumulation more difficult relative to previous generations of students who benefited from a more heavily subsidised tertiary education. Taken together this suggests that the wealth accumulation process will become more difficult for current and future cohorts of young people, which is likely to depress the level of wealth accumulated.

Further, many students graduate with large student debt and earning prospects that are not much improved – or working in jobs where the wage and salary structure does not seem to be consistent with repaying the student loan debt. Many of these people will spend the rest of their lives servicing their student debt, without ever being in a position to begin to accumulate wealth. One likely implication is that the number of people with negative wealth may increase further in the future.

In sum, the large and increasing number of New Zealanders with significant student loan debt is likely to reduce the wealth accumulated by many New Zealanders over their lifetime relative to previous generations. These effects will become increasingly apparent as the number of New Zealanders with student loans increase and on they move into the middle aged population in greater numbers. It may mean that many New Zealanders do not build an ownership stake in the New Zealand economy.

CHANGING ATTITUDES TOWARDS DEBT, CONSUMPTION & SAVING

New Zealand household saving dropped significantly in the mid-1980s as a result of the comprehensive deregulation of credit markets. Whereas borrowing for a house or for consumption used to be more demanding (in terms of deposit requirements, the amount available and so on), deregulation made it significantly easier to borrow money. And households responded by increasing borrowing. The removal of import protection also expanded consumption opportunities. Brash (2002) speculates that the cause for declining savings is that "our incomes haven't been growing as rapidly as those in other comparable countries. But the range of goods and services available to us has increased dramatically… If our tastes (our demand for goods and services) are increasing faster than our income, savings inevitably fall". Indeed, Claus & Scobie (2002) claim that New Zealand's household savings rates experienced a structural break in 1987, shifting from a high to a low savings state.

This is a reasonably standard pattern across developed countries. It is well documented internationally that credit market liberalisation and easier access to consumer credit leads to higher borrowing rates (Hull (2003), Jappelli & Pagano (1994)). However, the New Zealand response over the past decade or two has been more extreme than observed in other Anglo countries. As noted above, New Zealand is alone in having reduced financial wealth over this period. In other Anglo countries, the significant increase in household debt has been matched by a significant increase in financial assets (as well as in the value of housing assets). This difference may be due to the absence of any savings policy in New Zealand, whereas other Anglo countries introduced or expanded savings policies over this period.

"Deferred gratification isn't worth it for most people – you can spend $200 on a cell phone now and use it or save $200 for use later. But $200 is peanuts compared to what you need for a house/university – you need more like $20,000. So, you give up and spend it now."

MALE, 36, WELLINGTON

Student loans and debt tolerance

"Student loans have made their holders immune to debt – they think "what's the difference between $20K and $50K in debt?"

MALE, 36, WELLINGTON

"Unfortunately, I've become accustomed to debt."

MALE, 21, STUDENT WITH $35,000 LOAN, CHRISTCHURCH

"...university study does tend to make you very ambivalent to debt – it took me a long time to get out of the habit of relying on a maxxed out overdraft after graduation."

FEMALE, 23, STUDENT, MELBOURNE

"I am much more careful about getting into debt. I really try and avoid it as much as I can. The student loan has made me realise what a difficult thing it is."

FEMALE, 27, LONDON, GRADUATED WITH $20,000 LOAN

One interpretation of this is that the higher borrowing represents a one-off shift and that normal savings behaviour will resume after some adjustment period. However, there is no evidence to support this argument. A far more likely explanation is that it represents a new equilibrium with savings rates permanently lower than they would be in a non-deregulated environment. There seems to have been an underlying shift in attitudes towards borrowing and consumption. People seem to be favouring current consumption over saving for future consumption.

In addition to borrowing for a house, borrowing to finance consumption has increased strongly. Between 1992 and 2002, the Reserve Bank estimate that the sum of hire purchase loans and credit card debt rose from $2 billion to about $7 billion. On the basis of anecdotal evidence from our interviews and media coverage, attitudes to debt and consumption do seem to be changing with New Zealanders – particularly young New Zealanders – far more comfortable taking on debt and living for the present.

Indeed, one effect of the student loan scheme appears to have been to increase the debt tolerance of people with student debt. Although one response by graduates coming out of university with a student loan and confronted with rising house prices and the need for a larger deposit, is to act in a frugal way to save and to pay off debt, this seems not to be the case for many. Rather many people in this situation seem comfortable with debt, and have priorities other than saving.

And many people seem uninterested in saving for retirement. Commenting on the results of the 2003 Sovereign SaverPulse survey, Simon Swanson, managing director of Sovereign, said "With the booming housing market and more buoyant economy people have more disposable income. But this survey reveals an alarming indifference toward saving as people choose to live for today, rather than save for their retirement." Indeed, the converse appears to have been true, with household savings falling sharply over this period. The March 2004 results of the Sovereign SaverPulse survey showed a five percentage point drop in the number of people saving for retirement to 52%, which is the lowest in the seven years that the survey has been conducted. This is despite 78% of respondents saying they did not believe that government superannuation would provide an adequate retirement income (New Zealand Herald, 2004).

SUMMARY

This section has described several significant pressures on the ability of New Zealand households to accumulate wealth. Indeed, there is reason to believe that an increasing number of New Zealanders will not accumulate significant amounts of wealth – particularly relative to the experience of previous generations of New Zealanders. As Retirement Commissioner Diana Crossan notes, "the lifetime experience of today's 55 to 65-year-olds and the impact it had on their ability to make private provision for retirement will be very different to that of current 25 to 35-year-olds" (Crossan (2004)). And Hong and Jensen (2003, iii) claim "that the pattern of asset accumulation that has been successful over the working lives of the current older population may not necessarily transfer successfully to future cohorts." The situation for today's young New Zealanders is likely to be quite different from that of their parents. The environment surrounding wealth accumulation by New Zealand households seems likely to continue to become less supportive.

"There's a different environment for young graduates compared to when I left University – at that time, young graduates left University looking forward. They were debt-free and could buy homes within a few years. There isn't much optimism or confidence about the future now."

MALE, 50s, AUCKLAND

"My great aspiration in life is to be debt-free, but I don't ever see it happening... you trade in a student loan for a mortgage and trade in a mortgage for whatever else."

FEMALE, 26, $50,000 STUDENT LOAN, AUCKLAND

"It will take a lot longer for me to be economically stable... quite a generational shift of the importance of owning a home... it's not something I think about. At my age, my Mum already had 4 kids, a mortgage... it's going to be a lot later for me [to have these things]... By the time I pay off my student loan, start buying a property or whatever, how am I going to fit in having my own children?"

FEMALE, 25, STUDENT WITH $25,000 LOAN, AUCKLAND

Taken together, the sharp decline in home ownership rates, the rapidly increasing student loan burden, and the increased appetite for debt and consumption, will place substantial pressure on the wealth accumulation process. This is likely to have a pervasive effect across the population, exerting an effect on most New Zealanders. And there is likely to be a particularly acute effect on those in the bottom half of the income and wealth distributions.

Although these issues – housing affordability, student loans, debt culture and so on – tend to be discussed separately, it is worthwhile to consider their combined effect. These different pressures interact to have a profound effect on the wealth accumulation process and the expectations that New Zealanders – particularly young New Zealanders – have in terms of their ability to build a future in New Zealand and to get ahead financially. Faced with these different pressures, many New Zealanders – even those who may be expected to be doing reasonably well – think that it will be hard to get ahead and find it difficult to see a clear pathway forward. This suggests that a focus on improving the ability of New Zealanders to accumulate wealth through time is an important priority for debate and action.

As noted several times above, many of these challenges are not unique to New Zealand even if the challenges are often more acute in a New Zealand context. However, several Anglo countries have either implemented policies to mitigate these pressures or have begun to debate these issues. For example, the system of compulsory superannuation established in Australia has broadened the distribution of financial assets across the Australian population and has prevented an increase in wealth inequality since 1986 (Harding (2002)). The priority for New Zealand is to develop and implement creative solutions to address these emerging challenges.

6 CONCLUDING REMARKS

This paper has described the level and distribution of wealth in New Zealand, benchmarked the New Zealand situation against several other – mainly Anglo – countries, and examined how the level and distribution of wealth is likely to change over the next few decades. From this analysis, two overall observations can be made.

First, it is increasingly difficult for many New Zealanders to advance financially

The wealth distribution in New Zealand is uneven, with wealth holdings concentrated among the top few wealth deciles. Many people – at least half of the adult population – have no meaningful holdings of wealth, and a significant proportion of the population (16%) have negative wealth. Further, many New Zealanders do not accumulate wealth over their lifetimes and struggle to advance; certainly for those who earn below the median income, saving and wealth accumulation are difficult. This is a pervasive issue, affecting most New Zealand households rather than a minority.

New Zealand contrasts unfavourably with other Anglo countries in terms of the aggregate level of household wealth, and particularly in terms of their holdings of financial wealth. Household wealth is significantly lower than in other developed countries, and household financial wealth has declined over the past decade in contrast to these other countries as household savings rates have continued to fall and households borrow to invest in real estate.

And this level and distribution of household wealth in New Zealand has been generated in an environment that has, at least until the last decade or so, been quite favourable to household wealth accumulation. However, traditional ways in which New Zealanders have accumulated wealth – largely through home ownership – are becoming less accessible to many, and there are several emerging challenges to the wealth accumulation process that combine to make it more difficult for many New Zealanders to get ahead financially.

In particular, young New Zealanders are likely to find it considerably more difficult to accumulate wealth over their lifetime than previous generations of New Zealanders. A combination of student loan debt, worsening housing affordability for first home buyers, and the emergence of a debt culture, make it likely that many young New Zealanders will accumulate much less wealth than previous generations (despite the likelihood that incomes will increase through time as the economy grows).

These trends are likely to have a major effect on the future level and distribution of ownership in New Zealand. It looks likely that a growing number of New Zealanders will be without any meaningful ownership stake in the economy and society, and wealth may become increasingly concentrated. Further, these trends do not suggest that the overall level of household wealth in New Zealand will converge to that of other Anglo countries.

Second, policies and institutions have a significant effect on the level and distribution of household wealth and the ability of people to advance financially

Many factors have contributed to the lower level of household wealth in New Zealand, and the difficulties that New Zealanders face in accumulating wealth, relative to the situation in other Anglo countries; for example, New Zealand's lower level of real per capita income, public provision of retirement income in New Zealand, and so on. These factors do capture a part of the story, but they cannot explain the size of the gap between New Zealand and other Anglo countries and nor can they satisfactorily explain why New Zealand's performance on these measures has worsened relative to other countries over the past decade when New Zealand has generated strong economic growth and has reduced the generosity of public provision for retirement. In such an environment, household saving and wealth accumulation could have been expected to improve not decline.

Rather, much of the difference between New Zealand and other Anglo countries is likely to be due to differences in policies and institutions that encourage and support household wealth accumulation. All other Anglo countries have policies that encourage or require households to accumulate housing assets (e.g. assisted first home ownership schemes) as well as financial assets (e.g. compulsory superannuation, tax incentives for saving). The evidence clearly indicates that these policies have had a positive effect in terms of increasing the level of household wealth accumulation. New Zealand is unusual in having no policy settings that deliberately encourage asset accumulation in this way (aside from the tax advantaged treatment of home ownership).

A focus on these policies and institutions can also explain why financial wealth has declined. Although financial market deregulation has led to increased household debt across Anglo countries, New Zealand has experienced a decline in household financial wealth not seen in other countries. A major part of the explanation for this is the surrounding policy and institutional environment; whereas other countries implemented or expanded savings policies over this period – which acted to increase household financial asset holdings – New Zealand has done nothing deliberate in response.

The lesson is that policy can have a significant impact on the level and distribution of household wealth. Just as Australian policy with respect to compulsory superannuation has led to a much broader distribution of asset ownership in the population, there are steps that can be taken in New Zealand to address the prospect of an increasing number of New Zealanders without an ownership stake. Policy settings can be changed in New Zealand to encourage wealth accumulation and to assist New Zealanders to get ahead financially even in a more challenging environment.

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APPENDIX 1 : DATA SOURCES

2001 HOUSEHOLD SAVINGS SURVEY

The 2001 Household Savings Survey (HSS) was a cross-sectional nationwide survey conducted between August and November 2001. Respondents were asked to provide information on the value of their personal assets and debts held in New Zealand and overseas.

The survey had a sample size of 5,374 interviews made up of 2,392 non-partnered individuals and 2,982 couples. The survey included a Maori booster sample.The response rate was 74%. Respondents were aged 18 and above.

Interviews were conducted in person using an electronic questionnaire. If a respondent was part of a couple, the couple was interviewed as one unit. Information on assets and debts was only collected for the selected non-partnered individual or couple, not for other family or household members.

The survey report and accompanying tables are available at:
http://www.stats.govt.nz/domino/external/web/prod_serv.nsf/htmldocs/Household+Savings+Survey

RESERVE BANK OF NEW ZEALAND – HOUSEHOLD FINANCIAL ASSETS AND LIABILITIES SERIES, 1978-2002

These data are drawn from Reserve Bank surveys of the funding and claims (loans) of large financial institutions, managed funds, small household lending and an annual statistical return covering small financial institutions.

Other sources of information include reports to Parliament by statutory bodies, Statistics New Zealand, the New Zealand Institute of Economic Research and private organisations serving the financial industry. Where official or comprehensive industry data are missing, the Reserve Bank has worked with market participants to estimate the value of household financial assets and liabilities.

The data are available at:
http://www.rbnz.govt.nz/statistics

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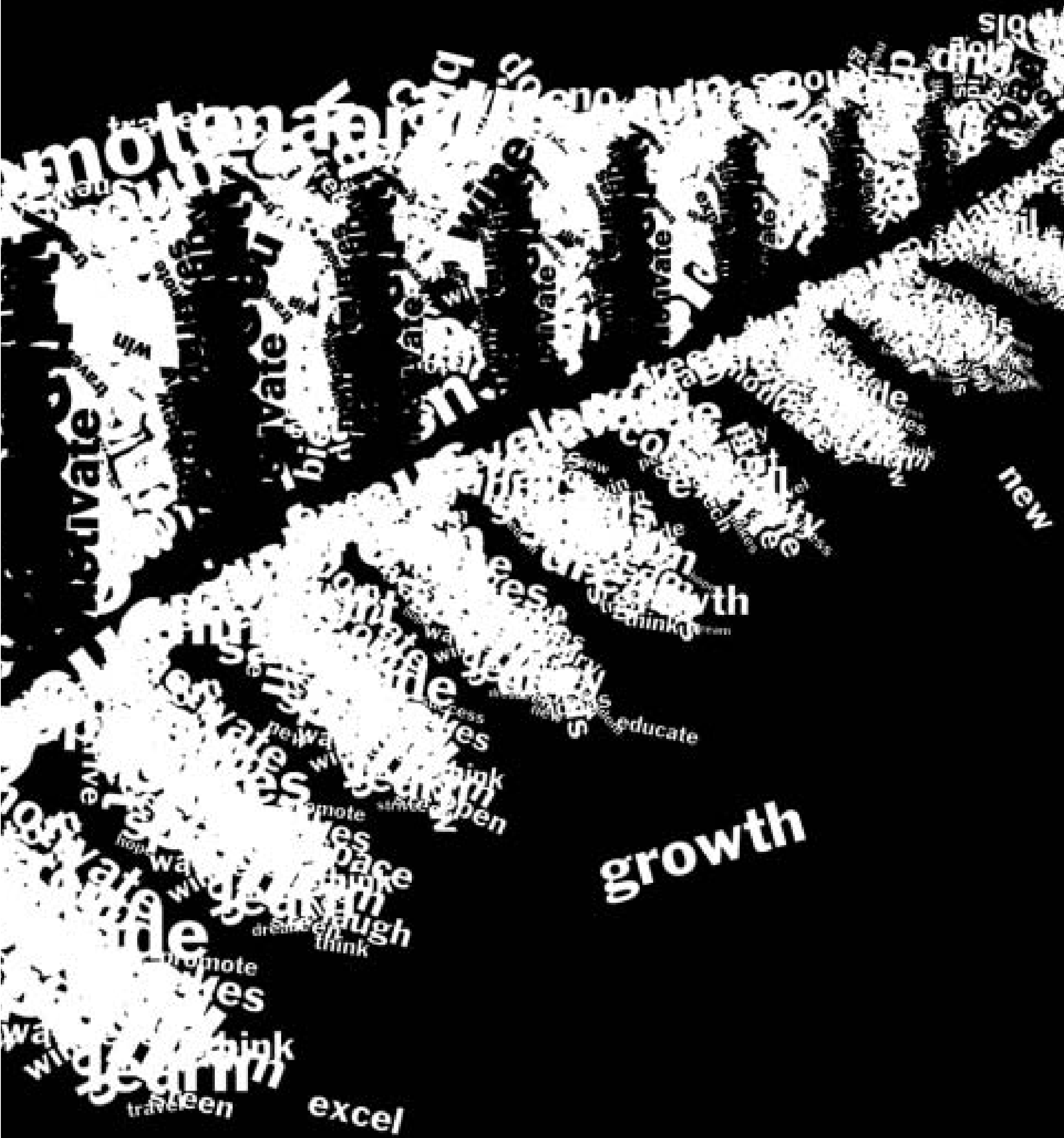

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