

OFFICE OF THE
Deputy Leader of the Opposition

PRECIS OF GUARANTEED MINIMUM INCOME (GMI) ISSUES
(for W A Political Discussion Group)
by Rolf Gerritsen

A paper by Ian Manning is also enclosed with this letter.

Further material will be available if the Group requires it.

When the group feels it is getting on top of the issue you can let me know and I can possibly prevail on Senator Don Grimes Federal Shadow Minister for Social Security) to come to Perth to meet the Group.

SYNOPSIS OF SOME Questions RAISED BY GMI SCHEMES

- (1) The Emphasis of the Scheme?
 - to alleviate poverty?
 - to rationalise existing welfare schemes?
- (2) Possible GMI Schemes
Possible schemes to achieve a guaranteed minimum income would be:
 - (a) Reforms of the current welfare structure to fill gaps in the existing welfare structure to provide a GMI to all in need;
 - (b) Family Income Supplements provided selectively to all family units whose income is below the GMI level;
 - (c) Demogrant Systems under which a group of people (single parents, aboriginals, etc) are paid a flat rate sum free of means test but subject to income tax.
 - (d) Tax Credit Schemes provide for credits – fixed amount to be credited against income tax liability. If the credits exceed liability then the excess is paid in a' refund to the person concerned. This system has the benefit of offering equal monetary value to all taxpayers rather than variable values that increase with increased income.
 - (e) Negative Income Tax provides benefits selectively to those below a specified income level. If income is above the break-even point selected for the scheme, then the income earner is liable to pay tax. If his income is below the break-even point then the payment to the income earner rises as his income decreases (ie reversed income tax).

OFFICE OF THE
Deputy Leader of the Opposition

15 September 1977

TO ALL MEMBERS
W A DISCUSSION
GROUP

Dear Colleague,

The next meeting of the W A Discussion Group will be on Sunday, 25 September 1977 at 10.00am at the Trade Union Training Centre, Adelaide Terrace.

A discussion paper on the Guaranteed Minimum Income idea is enclosed.

Jeanette O'Keefe will talk to the group about Guaranteed Minimum Incomes in other countries.

I hope to be in Perth for this meeting.

Yours fraternally,

Rolf Gerritsen
(Advisor to Tom Uren, MP)

GUARANTEED INCOME SCHEMES AND THE 'FUTURE OF SOCIAL SECURITY IN AUSTRALIA

1. The Present Debate: Two Broad Alternatives.

Over the past few years a great deal has been written about the Australian social security system, springing from two main concerns: dissatisfaction with the inequities of the present private adjuncts to the government system (superannuation schemes, and third party and workers' compensation) and anxiety at the continued existence of poverty in Australia. These two concerns have commended different approaches to the reform of the system.

The present largely private system of accident insurance has notable shortcomings. Administrative costs are high, and the awards often seem capriciously different in similar circumstances. Similar criticism has been made of workers' compensation. The deficiencies of the typical private superannuation scheme are different, and include a lack of portability of benefits, inadequate protection from inflation, and great variation in generosity between schemes. Discontent with the present provisions for compensation and superannuation may take different forms, but the proposed solution is generally the same: the Woodhouse and Hancock reports taken together recommend a grand government superannuation and compensation scheme, which would supplant the present private provisions and almost incidentally replace the greater part of the present social security system as well¹. Revenue raised partly from the petrol tax and from employers' contributions, but largely from the designation of part of the income tax, would be used to pay earnings-related benefits to people in defined circumstances, free of means test but subject to taxation. The rump of the present social security system would remain to look after people who had not made the required tax-contributions, or whose claim for a social security income was not due to age, injury or illness: chiefly the unemployed and single parents other than widows.

Concern with poverty leads the Henderson report into an entirely different set of criticisms of the present social security system, and on to an incompatible set of proposals². The Report draws poverty lines for different sizes of family, such that a family of man, wife and two children is considered poor if its disposable income is a little less than half average weekly earnings. Given that most pension rates are below this line, pensioners without other income are poor, while poverty is also found, to a lesser extent, among people who are ineligible for social security payments. The problem is seen as that of bringing poor people up to the poverty line, and the instrument proposed is a guaranteed minimum income scheme. By this scheme the government would narrow the distribution of disposable income, increasing that of people who would otherwise have little, without regard for their past earnings. Superannuation and compensation would remain as supplementary schemes, perhaps still in the private sector.

Australia is thus confronted with two quite distinct visions of the future of its social security system. The position is complicated by the fact that within each basic alternative there is a wide variety of options. The purpose of this paper is not to discuss the broad choice between earnings-related schemes and a guaranteed minimum income scheme (Professor Henderson has recently done this³) but to consider some of the decisions that must be made in reforming the present social security system within the guaranteed minimum income approach.

2. A Social Dividend for the Abolition of Poverty.

The guaranteed minimum income approach to social security is founded on the belief that any person who has a claim to belong to Australian society by birth or immigration should not be prevented by lack of income from leading the normal life of an Australian. As a rough judgement such a life becomes difficult when income falls below a poverty line set, not at some absolute level of subsistence, but in relation to average earnings. Those deemed poor in Australia are poor in relation to their fellow citizens, not necessarily in relation to people in other countries or to Australians in times past. However, compared to others round about they are living in austere circumstances. He who judges that this bottom eight per cent of the population (on an individual basis) is too poor must look round for ways of increasing the disposable income of poor people relative to others; of compressing the distribution of income. Given that most poor households do not include an adult worker, measures to equalise the distribution of earnings are not primarily relevant. What is required is some sort of tax/transfer scheme to modify the observed distribution of private income into the desired distribution of disposable income.

A tax/transfer system already exists. One approach would therefore be to ask how it should be modified for the better alleviation of poverty. The alternative is to forget all about what happens at present, design a hypothetical social security system for the abolition of poverty, and then ask what prevents its implementation. Taking this second approach, the simplest ideal system would consist of two parts, a social dividend and a proportional income tax.

A social dividend is an unrequited payment from the government to its citizens at rates which depend on family size alone. Child endowment as hitherto understood is a social dividend. Were such payments made to everybody at poverty line rates, poverty would be abolished in Australia. Such generous endowments would have to be financed, and the simplest way to do this would be by imposing a proportional tax on all income apart from the social dividend – that is, on all private income. People would be free to live on their social dividend, or to supplement it by earning private incomes, on which they would pay a flat rate of tax. The net result would be that people with low private incomes would receive more by way of social dividend than they pay in tax, while those on high incomes would pay more than they receive; a redistribution of income would be effected, and provided the administrative arrangements worked, poverty would be eliminated. However, such a scheme has fatal disadvantages, each constituting a difficulty which must be faced before a guaranteed income scheme can be implemented.

Firstly, it raises the question of the relative treatment of different sizes of family. As compared with the present system, it would not only bring about substantial change in the distribution of disposable income in favour of poor people, but at all levels of private income would redistribute in favour of families as against single individuals and childless couples. Is it proper that a social dividend scheme intended primarily to help poor people should turn out to favour families so strongly at all levels of income?

Secondly, the scheme completely denies the claims of some groups to preferential treatment. Many people (and not only those devoted to superannuation schemes) would argue that those who are in some definable and widely-recognised way hindered from working for a living should be eligible for higher social security payments than others. Is it possible to treat the aged, invalids and so on

preferentially while still preserving the structure of a guaranteed income scheme? Is it possible to grant such preference and still abolish poverty?

Finally, if the social dividend is to be available to all citizens whether or not they work, rather than confined, like present-day pensions and benefits, to people who have an approved reason for not working, what is to prevent people from giving up work, and luxuriating in indolence upon their social dividends?

Each of these questions deserves an answer.

3. Work Incentives.

The inducement to work under a social dividend scheme lies, as always, in the monetary reward, as well as any satisfaction or social contact and social approval the work may give, though without the threat of starvation should a man fail to earn. The proponents of guaranteed income schemes are therefore very interested, not only in the level of the social dividend, but in the tax rates necessary to pay for it. If these rise too high work incentives may be impaired.

Because no country has yet tried anything approaching a guaranteed income scheme, nobody knows who (if anybody) would give up work and live on their social dividends alone. Such evidence as is available suggests that few would do so. What is more important is the effect of the redistribution on work effort at all levels of income – for if the increased taxes required to pay for the social dividend lead to reduced work effort at any level of income, the tax rate will have to be further increased to maintain the social dividend, and so on⁵. The prima facie case is that this can be avoided if marginal tax rates (that is, the tax slice out of each extra dollar earned) are kept as low as possible. Under present Australian circumstances (or, strictly, those of 1973) full poverty line social dividends for all would have implied a proportional tax rate of well nigh fifty per cent – higher than the marginal rate presently applied to most earners⁶. Aside from any direct political objection to such a rate, it would seem too high to maintain work incentives. The idea of universal poverty-line social dividends is therefore unrealistic. Does this mean that bringing all Australians up to the poverty line is a completely hopeless ambition?

4. Favoured Categories.

If fifty per cent be adjudged too high a tax rate, the simple way to bring it down is to reduce the social dividends. This cannot be done across the board without precipitating those who have no other income into poverty. However, most people who have no other income are in this position due to some definable hindrance to their working for a living – age, sickness, single parenthood and so on. A possible strategy is to pay social dividends to people in these special categories at a rate equal to or above the poverty line, while maintaining sub-poverty line dividends to the rest of the population regardless of income. At one stroke this proposal lowers the tax rate to forty per cent or lower, providing work incentives and yet recognising the claims of those who in definable ways are hindered from earning an income⁷. It leaves some people (those outside the favoured categories) at risk of poverty, but by and large these have earning capacity sufficient to keep themselves out of poverty given some assistance from the sub-poverty line social dividends.

Despite these considerable advantages, the introduction of favoured categories into a minimum income scheme is not something to be undertaken lightly. Even when the aim is to provide specially for all groups hindered in earning an income, the identification of hindrances is difficult. One way is to correlate poverty with personal attributes such as age or invalidity: this can establish the main groups

most heavily at risk of poverty, and so requiring full-rate social dividends. Even here questions arise: for example, poverty is fairly common among single females, even when they do not have children⁸. Does the status of being an unmarried woman therefore warrant social dividends above the norm? Or, what about persons who cannot read or write in English? Further, hindrance in earning income is a matter of degree. Though it be agreed that old age is a hindrance, loss of earning capacity does not occur at any particular age. Similarly with degrees of invalidity, and the fact that an injury which would deprive one man of his livelihood might be no more than a minor nuisance to another. The introduction of favoured categories inevitably brings injustice to those whose disability places them just outside eligibility for a full social dividend.

Not only is it difficult to establish the groups to be favoured; it is hard to define them so that the criteria for inclusion are outside the individual's control. If it is possible for an individual to make himself eligible for full-rate social dividends, there will be undesirable incentives and suspicions of dissembling. Thus the availability of the invalid's pension encourages some people not to recover from their chronic illnesses, while the widow's pension discourages remarriage. Again, in some American states which have higher pensions for deserted wives than for families with unemployed bread-winners, the best thing, financially, an unemployed man can do for his wife and children is to walk out on them.

The hardest favoured category to define is that where the hindrance to earning does not inhere in the individual, but in society around him – the case of unemployment. For each involuntarily unemployed person it is necessary to certify, not that he is in any way disabled, but that the labour market lacks a job for him. (It is true that unemployment benefit is at present used for people who have disabilities not recognised in the general list of categories, e.g. the 75 per cent invalid, but this is not its main intent.) The unemployed therefore come to receive social dividends at the full rate even though they may have no more personal disability than their fellow citizens who work. This has two consequences. Those at work, particularly those who are secure in their jobs, often grudge the unemployed man his minimum income. It would be more equitable if a given rate of unemployment were shared around the workforce by birthday ballot, instead of the present last on-first off basis. Secondly, people can be deemed unemployed only when they are not at work, and therefore not earning. As soon as they find a job, they are no longer unemployed, and their social dividend reverts from full to partial rate. This is an advance on the present position, where unemployment benefit goes from all to nothing, but is still not entirely consistent with the guaranteed income principle that the chief incentive to work should be its financial rewards. There is no fully satisfactory way out of this dilemma. To pay less than poverty line social dividends to the unemployed is to condemn innocent victims of the economic system to poverty; to introduce unemployment as grounds for favoured treatment reduces work incentives, and yet to make favoured treatment unnecessary by paying full poverty line social dividends to all requires too high a tax rate.

A social dividend scheme which discriminates in favour of some groups rather than others thus has considerable disadvantages, it being little comfort that a compensation/superannuation system encounters these same difficulties in a more acute form. However, it is the usual judgement, and certainly that of the Henderson report, that bringing most people out of poverty without charging too high a tax rate is worth these costs.

Having gone so far as to discriminate in favour of groups hindered from earning, would it make much difference if no guaranteed income were provided for anybody else?⁹ The main arguments in its favour are that it reduces (though does not eliminate) the incentive to qualify for membership of a favoured category; that it provides a minimal income during the waiting period inseparable from the determination of social security claims, and that it keeps large families of low earning capacity out of poverty. Again, it provides an income – admittedly below the poverty line – for those unfortunates who are not covered by the favoured categories, either because they have been rejected, or because through ignorance or pride they have not applied. Two more advantages inhere in the social dividend more as a reform of the tax system than as a reform of social security: it provides for equity between citizens with different family responsibilities at each level of income, and it enables the simplification of the tax schedule into a plain proportional tax while still maintaining overall progressivity. These we now discuss.

5. Relativities for Family Size.

A guaranteed income scheme integrating the social security income tax systems must reconcile the divergence between the two in the treatment of different sizes of family¹⁰. Social security assumes that income is shared within the nuclear family (man, wife and dependent children, or any abbreviation of this unit) while the income tax is levied more or less on an individual basis, with very little regard for the family circumstances of the taxpayer. As compared with the present balance of income tax and child endowment, any change which applies social security practice more generally (e.g. by a system of poverty-line related social dividends for all) will tend to favour families with dependent children as against those without, and favour married couples where one spouse is dependent as against single people, and as against couples with two incomes. Those who argue against these changes do not generally dispute the relative poverty lines for different sizes of family; they agree that two adults can live together cheaper than twice one, and that children add to a family's cost of living¹¹. Rather, there are two areas of dispute: firstly, among which group should income be assumed to be shared? and secondly, are allowances for family size appropriate at all levels of income, or should they be given merely when incomes are low?

Criticism of the social dividend related to poverty line, and so paid to married couples at less than twice single rate, comes from two opposed sources. One group, unsympathetic to marriage, argues that the sexes should be regarded as independent. Why should people of opposite sex be assumed to share their income and expenses just because they live together? Traditionalists, on the other hand, ask a different question. Why should single people of the same sex be able to live together and achieve the economies of household size without any reduction in their social dividends, while if a man and woman marry and live together they are penalised? Both groups conclude that the social dividend for a couple should be twice that for a single person. Some go further, and argue for a 'mother's wage', by which women with young children would be classified as a group hindered in going to work, and deserving of a full poverty line social dividend separate from their husband's. (Traditionalists view this as compensation to women who care for their children instead of going out to work; modernists as a source of cash to pay for child care.)

The trouble with all schemes for favouring the married over the single is that so long as the poverty line for a couple is less than twice that for a person living alone, any disregard of marriage in paying social dividends (and, worse, any

discrimination in its favour) leads either to payments to single people at less than poverty line, or to very high tax rates¹². Unmarried people (even those who in fact live with others) would resent these changes as an attempt to prevent them from living alone, and all and sundry would dislike the high tax rates. Even among those financially advantaged by the new arrangements there would be many who would resent the intrusion of the government into the financial relationship of man and wife. Altogether it would seem better to observe the existing social security (or poverty line) differential between married and single people in any social dividend scheme.

Yet should social dividends for dependants be available at all levels of income? Some would grant that they should be available to people near the poverty line, but refuse them to others. The most vexed case is the introduction of a social dividend for a dependent wife at all levels of income, so worsening the relative position of the double-income as against the single-income couple. This can be opposed on the grounds that women should be encouraged to work, for the sake of the gross national product, or for the sake of sexual equality, or to keep up the demand for housing, which at present-day mortgage rates is beyond the reach of the single – income household. On the other hand, it can be argued that the two-income couple is at present undertaxed. Taking the nuclear family as the unit of account (with independent single people as separate families) and arraying families according to their income, two-income families comprise 54 per cent of all families in the top quartile of the distribution, even though they comprise but 16 per cent of all families¹³. Put another way, married couples where both work on average have incomes one and a half times those of a single income couple, the exact multiple varying inversely with the number of children, for the more the offspring the more likely the wife is to work part-time¹⁴. Any continuation of the trend towards equal pay and equal opportunity for women is only likely to increase this difference. And yet at the moment the double-income couple (including single-earner families which can arrange to split their income) typically pay about twenty per cent less tax than a single-income couple with the same total private income. Double income couples have incomes higher than others, and are taxed less heavily on them. Surely here is a potential source of revenue to meet the needs of people in poverty. Weighing the arguments, the Henderson Report compromises – as do virtually all overseas tax jurisdictions. It retains the social dividend – dependent spouses, but proposes that a lower rate of proportional tax be levied on the wife's earned income (or husband's if that is less).

Some people, however, object to more than the introduction of social dividends for dependent wives. They consider that there should be no dependants' social dividends at all at higher levels of income, neither for wives nor children. Among poor people dependants are to be regarded as

responsibilities whose existence should be recognised in setting any minimum income, but at higher levels they do not in any way reduce the taxpayer's ability to pay tax. They have no claim on his income prior to that of the government – or, if they have such a moral claim, it is irrelevant in determining ability to pay. It is as though the government should regard a poor man's dependent wife and children as its responsibility, but a rich man's as his indulgence. If this be the case; if it be that dependants should be treated differently at different levels of income, then a plain social dividend/proportional tax scheme is not the sort of guaranteed income Australia

wants. Rather, there should be a poverty-line related minimum income, with allowances for dependants disappearing as private income increases. This minimum income could still be provided by means of a social dividend, but the proportional tax would have to give way to a schedule of rates varying with both income and family size, and effectively taxing away the dependants' social dividends at higher levels of income. This would make explicit the judgement merely implicit in the present lack of dependants' allowances in the tax system. Maybe it would not then be as acceptable as it is now.

6. Tax Rates

The proportional tax component of the simple social dividend scheme is thus implicated in the criticism that social dividends appropriate for poor people are not suited to the wealthy. It may also be criticised more directly, firstly on grounds by now traditional. The combination of social dividend and proportional income tax indeed has a net progressive effect, and accomplishes a considerable redistribution of income, but is this sufficient reason to abandon the familiar progressive rate schedule? If ability to pay increases with private income, then surely it is both equitable and sophisticated to have a gradually rising marginal tax rate, by which the tax take out of each extra dollar earned rises as income goes up. By contrast, the combination of a constant social dividend and a constant marginal (that is, proportional) tax rate seems rather crude.

Apart from any crudity, the Henderson social dividend scheme has the following incidence, as compared with the present income tax: for people with low private incomes it increases disposable income, but also increases the marginal tax rate on their private income; for people with middle to upper incomes it reduces disposable income but increases the marginal tax rate, and finally at the top-most incomes it has the effect once more of increasing disposable income, this time at a reduced marginal tax rate¹⁵.

Each effect may be questioned.

Firstly, relieving the most wealthy of tax would seem a peculiar effect for a scheme concerned with redistribution toward poor people. It can, of course, be argued that high marginal tax rates are self-defeating through their encouragement of evasion and disincentive to earning. Alternatively the proportional tax may have to be supplemented by a surtax on the highest incomes. This should be administratively manageable provided not too high a proportion of the population is affected.

Secondly, people with upper middle incomes would find themselves with reduced disposable incomes. This is inseparable from a scheme which increases the degree of income redistribution. They have part compensation in a reduced marginal tax rate, which might even act as a work incentive.

Finally, though low and lower-middle income people would find their disposable income increased under the Henderson proposals, they suffer increased marginal tax rates. Surely any reformer who has the interests of poor people at heart should not propose that they be subject to increased tax rates, even when these rates are merely marginal? Should he not stick to the progressive rate schedule, merely raising rates on the upper income groups in order to guarantee the incomes of the poor? The answer lies in the arithmetic of taxes. The greater the degree of progression in the tax schedule, and in particular the longer the range of exempt income below the tax threshold, the harder it is to raise the revenue to pay social dividends or any other form of guaranteed income¹⁶. A progressive tax schedule and significant social dividends are alternatives. One symptom of this is the difficulty which present Australian governments have in raising sufficient revenue from the

progressive tax schedule to cover child endowment – and yet, as a social dividend, the present child endowment is small compared with the guaranteed minimum income proposed.

It being the case that the greater the degree of progression in the tax schedule, the lower the social dividend payments, it is also true that regressive tax rates (tax rates which impinge heavily on low income people) can be used to increase social dividend payments. If the social dividend is only available to persons with low private incomes, and is taxed away from everybody else, dividend payments absorb relatively little cash and can, with given resources, be relatively high. The cost of this is that, while the social dividend is being tapered away, people find their disposable income rising very slowly as private income rises. Indeed, as with some means tests in use in Australia in the past, it is possible for disposable income to fall as private income rises – this being called in the jargon a poverty trap, for it makes nonsense of the principle that the incentive to work lies in the increased income it brings, not merely to the middle-income earner but to the low income man as well¹⁷. Sometimes regressive tax rates (or similar means tests) are defended on the ground that, so long as social dividends are confined to people who are hindered in earning a work income, it is no matter that they receive no encouragement to earn. However, such logic cannot be applied to poor people who are in the workforce, and the continued agitation against the means test would indicate that it is generally rejected by the elderly, invalid or any other group considered hindered in earning.

As against these contrasting proposals, a proportional tax rate would seem to provide the golden mean: it allows significant social dividends while maintaining a reasonable tax rate for all¹⁸. In addition, it has two other formidable merits: it does not require that income be imputed to time periods or to persons. Many of the problems of the present income tax derive from these processes, and such problems would only worsen if an attempt were made to combine social security payments and the income tax under a variable rate schedule. This is because the relevant time period for income taxation is generally accepted as a year or more, while for social security purposes it is generally reckoned as much shorter – need can arise if a family lacks income for as little as a week¹⁹. Under the social dividend/ proportional tax scheme the weekly minimum income payment does not vary with the income earned that week, and neither does the proportion of private income to be yielded in tax. All that can vary from week to week is whether or not a bread-winner is to be regarded as hindered from earning. By contrast, with regressive or progressive tax rates reconciling the short periods of social security assessment with the longer period for income tax is likely to require substantial end of year adjustments.

7. Administration.

A social dividend with proportional income tax is not the only possible type of guaranteed minimum income scheme. There are also negative income taxes. As pointed out by Pritchard and Saunders, the Henderson Report is a little loose in its terminology in these matters, and refers to its social dividend scheme as a negative income tax, which strictly it is not²⁰. The difference between the two kinds of minimum income scheme is that the payment of a social dividend and levying of a proportional income tax are two separate activities, while under a negative income tax the balance of dividend owing to any family, and tax due from them, is netted out and only the balance paid or demanded. The effect of this is to reduce the gross financial flow between the government and citizens, an effect which would have political advantages in a country where total government expenditure has the status of a magic number. (That other magic number, the budget deficit, is not affected, for both

schemes are self-balancing.) However, this cosmetic improvement can only be bought at the cost of considerable administrative bother, for it would be necessary to keep track of the balances owed to or owing from each family. By contrast both with a negative income tax and with the present system, a social dividend/proportional tax scheme, with no attempt to net out balances due to and from each family, lends itself to a new, simplified division of administrative responsibility.

At present the social security department deals mainly with people at the bottom of the income distribution, determining eligibility for pensions and benefits and administering the income test by which these are tapered away as private income increases. Only the child endowment section, and that administering age pension free of means test, deals with people at all levels of income. Under the Henderson scheme this responsibility for child endowment would be extended to cover social dividends to the whole population, but the department would lose the responsibility for income testing to the tax commissioner. Such a redefinition of responsibility would be possible under a variable tax rate scheme (and indeed is mooted in the Asprey report)²¹ but, due to the ambiguities of the different time periods appropriate for social security and income taxation, could not be so clear cut or implemented so easily. From the public point of view the main advantage of such a redefinition of responsibility is that it avoids the development of a poor man's administration, for both departments would then deal with the whole population irrespective of income.

In this respect the social dividend/proportional tax scheme contrasts with the various social insurance schemes mooted at the beginning of this paper. In that social insurance does not completely cover people in need, it would have to be supplemented by a residual welfare department, so resented in countries like Britain and the United States. Worse, these schemes assume the retention of the progressive tax schedule, and the limitations of revenue raising capacity by this means would result in payments being limited strictly to the favoured categories of beneficiary, with very little left over for anybody else. Indeed, with many of the payments earnings-related, it may be difficult to keep the basic rate of benefit up to the poverty line, even for people within the favoured categories. In all these respects the present system of income-tested pensions is closer to the social dividend scheme, and more efficacious as a means of eliminating poverty than any likely set of social insurance programs.

8. The Alternatives Again.

Taking the present system along with the two alternative paths of reform, it would seem that there are three ways in which the Australian social security system could be developed: firstly, evolution towards a social dividend/proportional tax scheme; secondly, to stay much as at present indefinitely (perhaps with added elements of a negative income tax, which tends towards an inefficient kind of social dividend system); and finally conversion into a social insurance scheme with a residual welfare administration doling out means tested benefits to those not covered by social insurance. These three have been listed in descending order of their likely efficacy in the alleviation of poverty. I claim that the interests of poor people should be paramount in any debate about redistribution.

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2. Commission of Inquiry into Poverty: *First Main Report, Poverty in Australia*. AGPS, Canberra, 1975. Vol.1, Chapters 4, 5 and 6; also Vol.2 particularly Appendix 6.
3. R.F. Henderson: 'Criteria for Welfare: Needs or Earnings?' *Australian Journal of Social Issues*, 12, 1977, pp.10Q-109.
4. Peter Saunders: 'A Guaranteed Minimum Income Scheme for Australia', *Australian Journal of Social Issues*, 11, 1976, pp.174-186; Hugh Pritchard and Peter Saunders: 'Poverty and Income Maintenance Policy in Australia' *Economic Record*, forthcoming; Sue Richardson: 'The Distribution of Income and Poverty in Australia', forthcoming.
5. Pritchard and Saunders, op.cit. Saunders, op.cit., p.179.
6. Henderson Report, Vol.2, p.84.
7. Henderson Report, Vol.2, p.70.
8. Henderson Report, Vol.1, p.19.
9. Richardson, op.cit.
10. Saunders, op.cit. p.181.
11. Australian work on relative standards of living is reviewed by Richardson, op.cit.
12. Henderson Report, Vol.2, p.83.
13. See Table 1 below.
14. See Table 2 below.
15. Henderson Report, Vol.2, pp.71-6.
16. Henderson Report, Vol.2, p.90.
17. Henderson Report, Vol.2, p.85.
18. In Percy Harris' terms, the social dividend with proportional income tax reconciles the social right and individual need approaches to social

security: the social dividend is universal, but the proportional tax imposes a strict income test. C.P. Harris: 'Income Security Programmes and the Philosophy of Social Security Policy'. *Australian Journal of Social Issues*, 11, 1976, p.162.

19. Saunders, op.cit., p.180.

20. Pritchard and Saunders, op.cit.

21. Taxation Review Committee, *Full Report*, AGPS, Canberra, 1975, p. 1 78.

TABLE 1. INCOME UNITS BY INCOME UNIT TYPE BY GROSS PRIVATE INCOME (NON-SELF-EMPLOYED ONLY).

AUGUST 1973.

Income Unit Type	\$ Per Week								TOTAL	
	0-22		23-80		81-130		Over 130		No.	%
	No.	%	No.	%	No.	%	No.	%		
Juvenile	126	10	626	48	79	6	7	1	838	16
Single adult, no Children	41	3	316	24	436	34	124	10	917	18
Married couple, both working	0	0	18	1	115	9	700	54	833	16
Married couple, one or more working	29	2	143	11	610	47	449	35	1231	24
Aged	767	59	104	8	31	2	14	1	916	18
Invalids, single parents, unemployed	331	26	102	8	22	2	3	-	458	9
	1294	100	1309	100	1293	100	1297	100	5193	100

Source: Henderson Report, Vol.2, pp. 66-7

TABLE 2. AVERAGE GROSS PRIVATE INCOME BY FAMILY SIZE, NON-AGED NON-SELF-EMPLOYED MARRIED COUPLES.

No. of Children	Both Working \$/ week	One or none working \$/ week
0	194	100
1	188	124
2	186	131
3	178	139
4+	176	132

Source: Henderson Report, Vol. 2, pp. 66-7.