

Course Materials Database Cover Sheet

<p>COMMONWEALTH OF AUSTRALIA Copyright Regulations 1969 WARNING</p> <p>This material has been reproduced and communicated to you by or on behalf of Queensland University of Technology pursuant to Part VB of the Copyright Act 1968 (the Act).</p> <p>The material in this communication may be subject to copyright under the Act. Any further reproduction or communication of this material by you may be the subject of copyright protection under the Act.</p> <p>Do not remove this notice.</p>

This file is a digital version of printed copyright material. Due to the process used to create it, its accuracy cannot be guaranteed. Please refer to the original published version if you have any concerns about its accuracy.

Book Portion

Book Title : Poverty *in* Australia V2
Book Author : Australian Government Commission of Inquiry into Poverty
Portion Title : Appendix 6: The Incidence of Guaranteed-Income Schemes
Portion Author : Australian Government Commission of Inquiry into Poverty
Publisher : AGPS
Place Of Publication : Canberra
Year : 1975
Page From : 60
Page To : 93
Isbn Or Issn : 0642017468

This article was originally digitised for the following unit. Articles may be reused in future semesters in other units by different lecturers.

Unit code : HHP011
Unit title : CRITICAL ISSUES IN THE HUMAN SERVICES
Lecturer's Name : Tomlinson, John
Faculty/School : School of Humanities and Human Services
Request ID : 44693

<p>DIGITAL COPY MADE FOR QUEENSLAND UNIVERSITY OF TECHNOLOGY</p> <p>under part VB of the Copyright Act 1968 reliance on: S.135ZMB (insubstantial portions of a work), OR S.135ZMC (article contained in a periodical), OR S.135ZMD (literary, dramatic, musical and artistic works), OR S.135ZME (certain illustrations in electronic form)</p> <p>on 30-MAR-04</p>

Appendix 6: The incidence of guaranteed-income schemes

In Chapter 6 we present a guaranteed-income scheme with two variants, our minimal and preferred proposals. In this Appendix we make a detailed assessment of the incidence of these two proposals, and provide further support for our preference for these proposals as against alternative schemes.

THE INCOME-SURVEY DATA

The primary source of data for this Appendix was the August 1973 Survey of Incomes. The Survey gave:

(1) A distribution of the population by income units, recorded separately for the self-employed, for farmers (using slightly different definitions), and for the rest of the population.

(2) A distribution of numbers of non-self-employed income units by net wages (i.e. wages less tax) for the previous week plus social security payments and rent received, by demographic characteristics of the income unit.

(3) Distributions of the total social security benefits, of net wages plus benefits, and of total tax paid by non-self-employed income units, classified by their demographic composition and net wages in the previous week plus benefits and rent received.

(4) A number of tables classifying income units by net income including dividends, but subject to a cut-off somewhat above the poverty line for each type of income unit.

The various steps necessary before this information could be used for assessing alternative social security schemes are outlined below.

Rectification of sampling omissions and errors

A number of income units which would be included in income-support arrangements were excluded from the Income Survey. These comprised people living in remote areas, patients in hospitals and nursing homes, and some of those spending the night in hotels and motels. These account for part of the shortfall of population as recorded in the Income Survey compared with the Census. The rest of the shortfall (which was particularly serious for single people) must be put down to non-contact.

The shortfalls, as against the Census, were calculated for each demographic type of income unit. There being no reason to believe that the missing units are different from the rest as to income, the recorded distributions of incomes were multiplied by these shortfall factors to obtain estimates of the income distribution of the whole population. See Table 6.1 below.

Checking the income survey totals

The total incomes as recorded in the Survey and adjusted for population shortfalls were compared with other sources as a check of the accuracy of the Survey results.

Comparison with National Accounts

Table 6.2 compares the total wages recorded in the Income Survey with 'wages, salaries and supplements'. The comparison is approximate, but shows that the wages recorded in the Survey (as adjusted for shortfalls) were approximately 92 per cent of those recorded in the National Accounts. This looks like a shortfall. However, the

Survey was based on taxable income, and we would not expect to record a higher proportion of actual wages, salaries and supplements received than people declare for tax purposes. (The National Accounts' figure includes employer contributions to superannuation funds, etc.) Generally wages and salaries reported for taxation are about 90-91 per cent of those recorded in the National Accounts. Our figure of 92 per cent is therefore slightly greater than expected. Some of the difference will be due to the inclusion of cash rent of dwellings in our income figure, and of regular annuity payments.

Table 6.1: Australian population by income units ('000 income units)

Income-unit type	Recorded in survey			Adjusted			
	Head	Children	Self-employed (not-farmer)	Not self-employed	Self-employed farmer	Not self-employed not farmer	Not self-employed
Aged single	0		7	517	17	9	648
	1			3			3
Aged couple	0		11	218	16	14	269
	1			4			4
Juvenile	0		5	709		6	870
Single working man	0		33	454	48	46	606
	1		2	12		3	13
	2		1	8		1	10
Single at-home man	0			66			92
Single working woman	0		7	261		8	316
	1			36			37
	2		1	17		1	21
	3			10			11
Single at-home woman	0			91			106
	1			28			29
	2			17			17
	3			10			12
	4			3			3
Married couple both working	0		51	351		53	366
	1		33	149		34	153
	2		44	170		46	174
	3		26	87		27	89
	4		10	36		10	37
	5+		5	14		5	14
Married couple both at home	0			84			88
	1			9			8
	2			5			5
	3			3			3
Married couple —other	0		42	351	49	44	364
	1		32	266	30	33	272
	2		39	296	33	41	303
	3		25	163	27	26	169
	4		15	66	12	16	69
	5+		8	44	7	8	46

Notes to table

• Self-employed = at least one adult member of the income unit is self-employed.

■ Farmers recorded in survey

Size of income unit	Number of units
1	46
2	70
3	35
4	41
5	30
6+	20

■ Balance of population not eligible for income support, (e.g. temporary visitors, prisoners, patients in declared mental hospitals)—approximately 2 000 000 people.

Table 6.2: Incomes as at August 1973 (non-self-employed only)

<i>Income-unit type</i>	<i>Recorded in survey</i>				<i>Adjusted for shortfall gross wages \$m/year</i>
	<i>Net wages and benefits \$'000/wk</i>	<i>Social Security benefits-income tax \$'000/wk</i>	<i>Gross wages \$'000/wk</i>	<i>Gross wages \$m/year</i>	
Aged single	14005	9178	4227	220	250
Aged married	11122	6860	4262	222	260
Juveniles	29114	-3567	32681	1699	2073
Single working man	44118	-8786	52886	2750	3603
Single at-home man	1332	855	477	25	35
Single working woman	22156	-2646	24802	1290	1522
Single at-home woman	4680	3366	1314	68	77
Couple both working	118081	-23717	141798	7373	7609
Couple both at home	4445	2821	1624	84	87
Couple—other	120766	-24896	145662	7574	7816
Total				21305	23332

Notes to table

- Compare National Accounts:

Wages, salaries and supplements	1972-3	22612
	1973-4	21112
	preliminary	
weighted average to August 1973		26012
less approximate salary and wages of self-employed'		563

25449

- Figure from Income Tax Statistics presented with the Budget, 1973-4 being wages and salaries of tax-payers with income from a business or profession, updated by the rise in wages, salaries and supplements.

Comparison with child endowment

Not surprisingly, once the number of children is reconciled with the Census population, child endowment balances with the Department of Social Security figures.

Table 6.3: Child endowment in the income survey

<i>Income-unit type</i>	<i>Estimated child endowment received (children per income unit × rates at August 1973)</i>	<i>Adjusted estimate</i>
	<i>\$m</i>	<i>\$m</i>
Single man	2	2
Single working woman	5	6
Single at-home woman	6	6
Married couple both working	55	56
Married couple both at home	2	2
Married couple—other	104	107
Self-employed	51	52
Total		231
Compare Department of Social Security figures		232

Comparison with other social security payments

Table 6.4 shows that the Income Survey, as adjusted, slightly over-estimates social security payments. This over-estimate is the greater because the social security figure includes payments to the self-employed whereas the Survey figure does not. However, such payments are likely to be very **small**, especially since the pension free of means test was not granted till after the Survey was completed. The difference between the two totals can be explained by sampling error.

Table 6.4: Pensions and benefits in the income survey (non-self-employed income units only)

<i>Income-unit type</i>	<i>Recorded in survey</i>				<i>Estimate from Social Security and Repatriation \$m/year</i>
	<i>Social Security payments (a) \$m/year</i>	<i>Child endowment (b) \$m/year</i>	<i>Net benefits (a - b) \$m/year</i>	<i>Adjusted net benefits \$m/year</i>	
Aged single	525		525	696	
Aged married	375		375	480	
Juvenile	28		28	34	
Single working man	16	2	14	18	
Single at-home man	44		44	62	
Single working woman	56	5	51	59	
Single at-home woman	175	6	169	183	
Couple both working	73	55	18	19	
Couple both at home	147	2	145	150	
Couple —other	180	104	76	78	
Total				1779	1762

Unfortunately it is not possible to compare estimates by income-unit type. This is because the Department of Repatriation and Compensation does not publish information about its payments which would enable them to be split between the aged, single parents and others.

Comparison with tax data

It appears that the Survey understates P.A.Y.E. deductions though the extent of the understatement is exaggerated by our inability in Table 6.5 to deduct P.A.Y.E. contributions by the spouses of the self-employed. The understatement of deductions may mean that wages are overstated slightly in the gross wages tables. However, this

Table 6.5: Income tax in the income survey (non-self-employed only)

<i>Income-unit type</i>	<i>Tax deducted as recorded in Survey \$'000/week</i>	<i>Tax deducted (adjusted) \$m/year</i>
Aged single	329	19
Aged married	391	23
Juvenile	4115	261
Single working man	9086	618
Single working woman	3727	231
Married couple both working	25115	1348
Married couple —other	28360	1521
Total		4021

Notes to table

• Pay-as-you-earn tax deductions	\$m/year	
	1912-3	1973-4
P.A.Y.E. net	3161	4239
Add refunds	616	772
	<u>3777</u>	<u>5011</u>
Weighted average, August 1973	4600	
less estimated P.A.Y.E. payments by self-employed	<u>100</u>	

4500

■ Source: P.A.Y.E. from Estimates of Receipts and Summary of Estimated Expenditure, Budget papers, 1974 and 1975. P.A.Y.E. to self-employed calculated in proportion of wages of self-employed to total.

does not preclude using the Income Survey data, especially since we hope for increased reporting of income under a proportional tax (with its lower marginal rates for many taxpayers reducing the incentive to evade taxes).

The adjusted results of the Income Survey thus reconcile reasonably well with other information on incomes. However, before they could be used for assessing guaranteed-income schemes, several other adjustments were necessary.

Conversion from the survey distribution to a distribution of income units by gross income

Further adjustments included the following three steps:

(1) Subtraction of social security benefits and addition of income tax to obtain total gross wages for the income units in each cell.

(2) Addition of dividends. In the Income Survey, interest and dividends were not collected for all income units. Rather, they were asked only of those below a cut-off related to the poverty line for their size of family. The Survey thus provided truncated distributions of net wages plus dividends and benefits; it did not give a full population distribution. Interest and dividends therefore had to be imputed to the population on the assumption that they were related to wages and salaries. The total to be imputed was calculated as in Table 6.6.

Table 6.6: Interest and dividends of the non-self-employed

<i>Interest and Dividends: 1972-3</i>	<i>\$m</i>
National Accounts figure projected forwards	1783
Less those to farmers and the self-employed in proportion to numbers	245
	1538

This was further rounded down to \$1400m, to provide a conservative estimate.

The amount was imputed thus:

- (i) Where the Income Survey had provided a distribution of income units by income including dividends as well as benefits less tax, dividends were allocated taking this information into account.¹ \$350m of interest and dividends were allocated to income units below the Survey cut-off points by this means.
- (ii) The remaining \$1050m was distributed among income units above the cut-off in proportion to their recorded wages and salaries, using the factors shown in Table 6.7.

The resulting distribution of dividends can only be defended as reasonable, and used until data from a complete Income Survey become available.

(3) Reclassification of data. The earlier processes, the subtraction of benefits, addition of taxes and imputation of dividends, resulted in a distribution of private income, still in the original cells of the basic Survey tables (income units by demographic type by net wages plus benefits, and net wages plus benefits by demographic type by net wages and benefits). In nearly all cells the average private income was greater than the average of net wages and benefits. By assuming a continuous dis-

1. It was not possible to use the truncated distributions directly because we did not have tax and benefit payments by the same classification.

Table 6.7: Pro-rating factors for imputing dividends above cut-off point

<i>Income-unit type</i>	<i>Gross wages a week \$</i>	<i>Factor</i>
Aged single	over 60	1.304
Aged married	over 70	1.304
Juveniles	all	1.0094
Single working man	0-60	0
	60-120	1.0188
	over 120	1.0375
Single at-home man	over 60	1.075
Single working woman, no children	0-60	0
	60-120	1.0188
	over 120	1.0375
Single working woman with children	0-70	0
	70-120	1.0188
	over 120	1.0375
Single at-home woman, no children	over 60	1.075
Single at-home woman with children	over 70	1.075
Married couple both working	0-80	0
	80-120	1.0188
	120-160	1.0375
	160-200	1.075
	over 200	1.150
Married couple both at home	over 60	1.075
Married couple, other, 0 or 1 children	0-60	0
	60-90	1.0188
	90-120	1.0375
	120-150	1.075
	over 150	1.150
Married couple, other, 2 or more children	90-120	1.0375
	120-150	1.075
	over 150	1.150

tribution, both private income and income units were then re-apportioned to new cells resulting in the two distributions: income units by demographic type by private income, and total private income by demographic type by private income per income unit. In these new tables average incomes were once again centred within the cells.

Separation of categorical and non-categorical income units

The income units recorded in each cell of the Tables 6.8 and 6.9 were separated into categorical and non-categorical units, mainly by using social security and repatriation data. Income units were classified as categorical if they fitted into any of the present pension categories, disregarding the means test. All motherless families were also included as categorical. In addition, income units where the head was sick or unemployed were classified as categorical, but only if they had a low private income. This assumed the continuance of a steep means test for benefits, as included in our recommended scheme.

The results are given in Tables 6.8 and 6.9.

Continuing revenue

In assessing all schemes we made allowance for a continuing contribution from the income tax to the general purposes of government equal to the contribution as at August 1973. This contribution was estimated by taking personal income-tax collections and deducting expenditure on social security payments, as in Table 6.10.

Table 6.10: Income tax contribution to general purposes of government

<i>Continuing Revenue</i>		<i>\$m</i>	
Personal Income Tax collections (1972-73)		4090	
less Social Security benefits per Treasury paper		1628	
		<hr/>	
Less self-employed (taxation less \$51m child endowment)		2462	(a)
		773	
		<hr/>	
Less war pension reduction and telephone concessions	67	1689	(b)
tertiary assistance	78	145	
	<hr/>	<hr/>	
Add Health Tax credit to continue		1544	(c)
Education deductions to continue		350	
		150	
		<hr/>	
Add 13% allowance for inflation 1972-73 to August 1973		2044	(d)
		266	
		<hr/>	
Total		2310	

Source: (a) Paper prepared by the Treasury for the Commission,

(b) Income tax statistics projected by national accounts.

(c) Appendix to speech: Budget. The reduction in war pensions is a guess, however.

(d) Assumed that these deductions will be replaced by tax credits, approximately to the value of the revenue foregone by the deduction (Appendix to Budget speech).

It will be noted that in our assessment of schemes we assume the conversion of certain tax deductions to universal tax credits (or to increases in government expenditure *in lieu*, e.g. on a national health service) and the abolition of the rest. On the other hand, wherever we compare a proposal with the 'existing system', we compare the net position under the proposed scheme with the net position under the present system—the proposed disposable income for income units with defined characteristics and private incomes with the average disposable income under the tax and social security regulations of August 1973. This latter was calculated for us by the Australian Treasury with the assistance of the Tax Commissioner. Because different taxpayers take advantage of concessions deductions to different degrees, the 'present' figures understate the disposable income of taxpayers with many concessional deductions, and overstate the disposable income of taxpayers with few deductions. The comparison between the present system and future proposals therefore underestimates the benefit of the schemes to present taxpayers with few deductions (at any income-unit composition and private income) and over-estimates the benefit to those with many deductions.

Though the future of concessional deductions is essentially a matter of tax policy, we have excluded deductions from our proposed schemes on the ground that they are of greater benefit to those with high private incomes than with low.² For this reason we have assumed that those which are useful to people on low private incomes will be converted to tax credits (health, education, welfare donations) and the rest abolished.

Other assumptions

Since the Income Survey data are based on incomes recorded for a week in August 1973, our assessments therefore estimate the incidence of alternative schemes as if

2. See the argument on children's deductions in Chapter 5.

they had been operating for a year centred on August 1973, i.e. the year February 1973-January 1974.

The various schemes contain a number of incentives—different degrees of incentive to earn a private income, different degrees of incentive to become categorical. By using *the* August 1973 distribution of incomes, and distribution of income units between the favoured categories and the rest, *we* assume that these incentives had no effect compared with the existing system. In other words, we fail to allow for differences of incentive between the schemes. We would expect these differences to be as follows:

(1) Insofar as the incentive to a private income is high when the income-retention rate is high, schemes with a high income-retention rate might lead to a high work effort, hence increased private income. With minimum-income payments constant in real terms this would enable the income-retention rate to be increased further. However, with minimum-income payments tied to average weekly earnings (as we recommend) or net private income a head, they will increase as national productivity increases. The income-retention rate will therefore stay about the same, though with growing prosperity. Similarly, schemes with low income-retention rates may discourage work effort, thus reducing the increase in private income and leading to a further fall in the income-retention rate, somewhat offset by a possible decline in average weekly earnings and so in minimum-income payments.

(2) Insofar as the incentive to become categorical depends on the financial difference between categorical and non-categorical status, then schemes with a considerable difference will tend to incur greater-than-expected expenditure on minimum-income payments, and schemes with a smaller incentive *will* incur less. This incentive is quite serious in the present system, while in most of the schemes here presented it is reduced. We have probably over-estimated total minimum-income payments as a result. However, this over-estimate is likely to be small, since the definitions of categorical status reduce the scope for the play of incentive and reduce the extent to which people can court categorisation, or prevent it happening.

THE RECOMMENDED SCHEME

Basic assessment and incidence

The recommended guaranteed-income scheme described fully in Chapter 6 consists basically of minimum-income payments balanced by a proportional tax on all private income. The rates of minimum-income payment for different kinds of income unit are shown in Table 6.11, for both the minimal and preferred proposals. Multiplying the rates of payment by the number of income units we get total minimum-income payments, whence we can derive the income-retention rate, as in Table 6.12.

Table 6.11: Alternative minimum-income payments

Income-unit type	No. of income units ('000)		Minimum-income payment— \$ a week ^(a)							Progressive fax rate	
	Self-employed	Other	Minimal proposal	Preferred proposal	Full poverty line	Disregarding marriage A	Disregarding marriage B	Kinked proposal ^(b)	Income aggregation	Income splitting	
CATEGORICAL											
Single	26	869	27.00	28.60	27.00	27.00	29.00	13.50+\$	27.00	27.00	
Single, 1 child	2	79	36.50	38.70	36.00	36.00	39.00	18.30+\$	36.50	36.50	
„ 2 children	2	48	45.60	48.30	45.00	45.00	48.00	22.80+\$	45.60	45.60	
„ 3 „	—	23	54.60	57.90	54.00	54.00	57.00	27.30+\$	54.60	54.60	
„ 4+ „	—	3	63.60	67.40	63.00	63.00	65.00	31.80+\$	63.60	63.60	
Married couple	30	320	44.00	46.60	38.00	54.00	58.00	19.20+\$	44.00	44.00	
„ 1 child	—	14	50.50	53.50	47.00	63.00	68.00	23.70+\$	50.50	50.50	
„ 2 children	—	7	57.50	61.00	56.00	72.00	78.00	28.20+\$	57.50	57.50	
„ 3 „	—	3	65.50	69.40	65.00	81.00	87.00	32.70+\$	65.50	65.50	
„ 4 „	—	1	74.50	79.00	74.00	90.00	96.00	37.20+\$	74.50	74.50	
„ 5+ „	—	1	86.50	91.70	83.00	99.00	105.00	43.00+\$	86.50	86.50	
NON-CATEGORICAL											
Single	94	1769	13.50	16.70	27.00	13.50	17.00	13.50+\$	6.10	8.80	
Married couple	146	767	19.20	23.80	38.00	27.00	34.00	19.20+\$	8.60	12.50	
„ 1 child	97	419	23.70	29.40	47.00	31.50	39.00	23.70+\$	10.70	15.40	
„ 2 children	120	475	28.20	35.00	56.00	36.00	44.00	28.20+\$	12.70	18.40	
„ 3 „	80	256	32.70	40.60	65.00	40.50	48.00	32.70+\$	14.70	21.30	
„ 4 „	38	105	37.20	48.60	74.00	45.00	52.00	37.20+\$	16.70	24.20	
„ 5+ „	20	59	43.00	53.30	83.00	49.50	57.00	43.00+\$	19.30	28.00	
TOTAL TAX CREDITS \$m											
self-employed			875	1070							
others			6359	7480	1090	7379	8636	6269	4164	4967	
INCOME RETENTION RATE (others only) %											
			65	60	49	61	56	65 (35) ^(c)	85-40	85-40	

Notes to table

(a) Minimum-income payments for families with over five children increase pro-rata in all schemes. In actual calculation we multiplied the number of income units with 5 and more children by the average rate for such units, rather than by the 5-child rate shown here.

(b) \$ = means tested supplement.

(c) income-retention rate as supplement is withdrawn.

Table 6.12: The recommended scheme, August 1973 (non-self-employed only)

	Minimal proposal \$m/year	Preferred proposal \$m/year
Minimum-Income Payments		
Categorical	2368	2510
Non-categorical	3991	4970
TOTAL	6359	7480
Add revenue for other purposes of government	2310	2310
	8669	9790
Revenue—35% proportional tax	8713	
40% proportional tax		9958
Add surtax	200	160
	8913	10118
Less working wives relief^{'''}	263	302
	8650	9816

(a) Assumed that working wives earn 0.45 of the total income-unit income.

The difference that the two proposals would make to the disposable income of various types of income unit is shown in Tables 6.13 to 6.24 and summarised in Tables 6.25 and 6.26.

Table 6.13: Effect of proposed G.M.I. schemes: single adult not eligible for pension or benefit: poverty line, \$33.40 a week (at work)

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	0	13.50	16.70
10	10	20	22.70	200	227
20	20	26.50	28.70	132	143
30	28	33	34.70	118	124
40	37	39.50	40.70	107	110
50	46	46	46.70	100	102
60	54	52.50	52.70	97	98
70	62	59	58.70	95	95
80	70	65.50	64.70	94	92
90	77	72	70.70	94	92
100	85	78.50	76.70	92	90
120	99	91.50	88.70	92	90
140	113	104.50	100.70	93	89
160	126	117.50	112.70	93	89
180	139	130.50	124.70	94	90
200	151	143.50	136.70	95	91
300	203	193.50	184.70	95	91
400	248	223.50	224.70	90	91
500	287	273.50	264.70	95	92
600	330	313.50	304.70	95	92

Table 6.14: Effect of proposed G.M.I. scheme: married couple (one working), no children, no pension or benefit: poverty line, \$44.70 a week

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	0	19.20	23.80
10	10	25.70	29.80	n.a.	n.a.
20	20	32.20	35.80	n.a.	n.a.
30	30	38.70	41.80	n.a.	n.a.
40	38	45.20	47.80	n.a.	n.a.
50	47	51.70	53.80	112	114
60	55	58.20	59.80	107	109
70	64	64.70	65.80	102	103
80	72	71.20	71.80	100	100
90	80	77.70	77.80	98	97
100	87	84.20	83.80	98	96
120	102	97.20	95.80	96	94
140	117	110.20	107.80	95	92
160	130	123.20	119.80	95	92
180	143	136.20	131.80	96	92
200	156	149.20	143.80	96	92
300	211	199.20	191.80	95	91
400	257	239.20	231.80	93	90
500	296	279.20	271.80	95	92
600	338	319.20	311.80	95	92

n.a. = not applicable (very few income units in this position).

Table 6.15: Effect of proposed G.M.I. schemes: married couple (one working), two children, no pension or benefit: poverty line, \$62.70 a week

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	2	28.20	35
10	12	34.70	41	n.a.	n.a.
20	22	41.20	47	n.a.	n.a.
30	32	47.70	53	n.a.	n.a.
40	42	54.20	59	129	141
50	50	60.70	65	121	130
60	59	67.20	71	114	120
70	67	73.70	77	110	115
80	76	80.20	83	106	109
90	84	86.70	89	103	106
100	92	93.20	95	101	103
120	107	106.20	107	99	100
140	122	119.20	119	98	98
160	137	132.20	131	97	96
180	150	145.20	143	97	95
200	163	158.20	155	97	95
300	220	208.20	203	95	92
400	269	248.20	243	92	90
500	310	288.20	283	93	91
600	351	328.20	323	94	92

n.a. = not applicable (very few income units in this position).

Table 6.16: Effect of proposed G.M.I. schemes: married couple (one working), four children, no pension or benefit: poverty line, \$80.70 a week

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	6	37.20	48.60	n.a.	n.a.
10	16	43.70	54.60	n.a.	n.a.
20	26	50.20	60.60	n.a.	n.a.
30	36	56.70	66.60	n.a.	n.a.
40	46	63.20	72.60	n.a.	n.a.
50	56	69.70	78.60	125	140
60	64	76.20	84.60	119	132
70	73	82.70	90.60	113	124
80	82	89.20	96.60	109	118
90	91	95.70	102.60	105	113
100	99	102.50	108.60	103	110
120	115	115.20	120.60	100	105
140	131	128.20	132.60	98	101
160	146	141.20	144.60	97	99
180	160	154.20	156.60	97	98
200	173	167.20	168.60	97	97
300	235	217.20	216.60	93	92
400	284	257.20	256.60	91	90
500	327	297.20	296.60	91	91
600	369	337.20	336.60	92	91

n.a. = not applicable (very few income units in this position).

Table 6.17: Effect of proposed G.M.I. schemes: married couple (both working), no children, no pension or benefit: poverty line, \$50.10 a week

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	0	19.20	23.80
10	10	26.10	29.20	n.a.	n.a.
20	20	32.90	36.60	n.a.	n.a.
30	30	39.80	43	n.a.	n.a.
40	40	46.60	49.40	n.a.	n.a.
50	48	53.50	55.80	n.a.	n.a.
60	57	60.30	62.20	n.a.	n.a.
70	66	67.20	69.60	102	105
80	74	74	76	100	103
90	83	80.90	81.40	98	98
100	92	87.70	87.80	95	95
120	109	101.40	100.40	93	92
140	125	115.10	113.40	92	91
160	141	128.80	126.20	91	90
180	157	142.50	139	91	89
200	172	156.20	151.80	91	88
300	245	209.80	218.80	86	89
400	309	253.20	257.80	82	83
500	367	296.70	291.80	81	80
600	422	340.20	336.80	81	80

It is assumed that private income is equally divided between husband and wife.
n.a. = not applicable (very few income units in this position).

Table 6.18: Effect of proposed G.M.I. schemes: married couple (both working), two children, no pension or benefit: poverty line, \$69 a week

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	2	28.20	35	n.a.	n.a.
10	12	35.10	41.40	n.a.	n.a.
20	22	41.90	41.80	n.a.	n.a.
30	32	48.80	54.20	n.a.	n.a.
40	42	55.60	60.60	n.a.	n.a.
50	52	62.50	67	n.a.	n.a.
60	62	69.30	73.40	n.a.	n.a.
70	69	76.20	79.80	110	116
80	78	83	86.20	106	111
90	87	89.90	92.60	103	106
100	95	96.70	99	102	104
120	112	110.40	111.80	99	100
140	129	124.10	124.60	96	97
160	151	137.80	131.40	91	91
180	160	151.50	150.20	95	94
200	176	165.20	163	94	93
300	249	218.70	215	88	86
400	313	262.20	259	84	83
500	370	305.70	303	83	82
600	423	349.20	347	83	82

It is assumed that private income is equally divided between husband and wife.
n.a. = not applicable (very few income units in this position).

Table 6.19: Effect of proposed G.M.I. schemes: single person eligible for age pension with means test: poverty line, \$27 a week at home, \$33.40 working

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	22	27	28.60	123	136
10	32	33.50	34.60	105	108
20	42	40	40.60	95	97
30	46	46.50	46.60	101	101
40	50	53	52.60	106	105
50	52	59.50	58.60	114	113
60	56	66	64.60	118	115
70	62	72.50	70.60	117	114
80	70	79	76.60	113	109
90	78	85.50	82.60	110	106
100	85	92	88.60	108	104
120	101	105	100.60	104	100
140	116	118	112.60	102	97
160	129	131	124.60	102	97
180	142	144	136.60	101	96
200	156	157	148.60	101	95
300	209	201	186.60	99	89
400	253	241	236.60	98	94
500	292	287	276.60	98	95
600	334	327	316.60	98	95

Table 6.20: Effect of proposed G.M.I. schemes: single aged person eligible for pension free of means test: poverty line, \$27 a week at home, \$33.40 working

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	21	21	28.60	129	136
10	31	33.50	34.60	108	112
20	39	40	40.60	103	104
30	46	46.50	46.60	101	101
40	55	53	52.60	96	96
50	63	59.50	58.60	94	93
60	70	66	64.60	94	92
70	78	72.60	70.60	93	91
80	85	79	76.60	93	90
90	92	85.50	82.60	93	90
100	100	92	88.60	92	89
120	115	105	100.60	91	87
140	130	118	112.60	91	87
160	143	131	124.60	92	87
180	155	144	136.60	93	88
200	168	157	148.60	93	88
300	218	207	186.60	95	86
400	263	247	236.60	94	90
500	301	281	216.60	95	92
600	342	327	316.60	96	93

Table 6.21: Effect of proposed G.M.I. schemes: aged married couple eligible for means-tested pension: poverty line, \$38.30 a week at home, \$44.70 working

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	38	44	46.60	115	123
10	48	50.50	52.60	105	110
20	58	57	58.60	100	101
30	68	63.50	64.60	93	95
40	75	70	70.60	93	94
50	80	76.50	76.60	96	96
60	83	83	82.60	100	100
70	87	89.50	88.60	103	102
80	89	96	94.60	108	106
90	90	102.50	100.60	114	112
100	92	109	106.60	118	116
120	103	122	118.60	118	115
140	117	135	130.60	115	112
160	131	148	142.60	113	109
180	146	161	154.60	110	106
200	159	174	166.60	109	105
300	212	224	214.60	102	101
400	260	264	254.60	102	98
500	300	304	294.60	101	98
600	342	344	334.60	100	98

Table 6.22: Effect of proposed G.M.I. schemes: widow eligible for pension with two children: poverty line, \$45.60 a week at home, \$51.90 working

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	38	45.60	48.30	120	127
10	48	52.10	54.30	109	113
20	58	58.60	60.30	101	104
30	68	65.10	66.30	96	98
40	73	71.60	72.30	98	99
50	77	78.10	78.30	101	102
60	80	84.60	84.30	106	105
70	84	91.10	90.30	109	108
80	87	97.60	96.30	112	111
90	90	104.10	102.30	116	114
100	93	110.60	108.30	119	116
120	105	123.60	120.30	118	115
140	120	136.60	132.30	114	119
160	134	149.60	154.30	112	115
180	148	162.60	166.30	110	112
200	160	175.60	178.30	110	111
300	216	225.60	216.30	104	100
400	265	265.60	256.30	100	97
500	306	305.60	296.30	100	97
600	347	347.60	336.30	100	97

Table 6.23: Effect of proposed G.M.I. schemes: single adult eligible for benefit: poverty line, \$27 a week at home, \$33.40 working

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	22	21	28.60	121	130
10	28	30.90	32.20	110	115
20	28	30.90	32.20	110	115
30	28	30.90	32.20	110	115
40	37	39.50	40.70	107	110

Thence as for single adult not eligible for pension or benefit (see Table 6.13).

Table 6.24: Effect of proposed G.M.I. schemes: married couple, four dependent children, eligible for benefit: poverty line, \$74.70 a week at home, \$80.70 when one parent works

<i>Private income \$/week</i>	<i>Disposable income</i>			<i>Proposed/Present</i>	
	<i>Present system \$/week</i>	<i>Minimal proposal \$/week</i>	<i>Preferred proposal \$/week</i>	<i>Minimal proposal %</i>	<i>Preferred proposal %</i>
0	54	74.50	79	138	146
10	60	78.40	82.60	131	138
20	60	78.40	82.60	131	138
30	60	78.40	82.60	131	138
40	60	78.40	82.60	131	138
50	60	78.40	82.60	131	138
60	58	79.20	84.60	137	146

Thence as for married couple (one working), four children not eligible for pension or benefit (see Table 6.16).

Table 6.25: Disposable income under minimal proposal as a percentage of average disposable income under the present system, as at August 1973

<i>Income unit</i>	<i>Couple both work</i>			<i>Couple both work</i>			<i>Single pensioner</i>	<i>Couple pensioner</i>	<i>Single pensioner</i>
	<i>Single</i>	<i>Couple</i>	<i>Couple</i>	<i>Couple</i>	<i>Couple</i>	<i>Couple</i>			
<i>Children</i>	0	0	0	2	2	4	0	0	2
Private income									
0	0	0	0	1400	1400	617	123	115	120
20	132	160	165	186	191	192	95	100	101
40	107	118	118	129	133	137	106	93	98
60	97	107	105	114	111	119	118	100	106
80	94	100	100	106	106	109	113	108	112
100	92	98	96	101	102	103	108	118	119
140	93	95	92	98	96	98	102	115	114
180	94	96	91	97	95	97	101	110	110
300	95	95	86	95	88	93	99	102	104

Table 6.26: Disposable income under the preferred proposal as a percentage of average disposable income under the present system, as at August 1973

<i>Income unit</i>	<i>Single</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Single pensioner</i>	<i>Couple pensioner</i>	<i>Single pensioner</i>
<i>Children</i>	0	0	0	2	2	4	0	0	2
<i>Private income</i>									
0	0	0	0	1750	1750	801	136	123	127
20	143	180	183	214	217	233	97	101	104
40	110	126	124	141	144	158	105	94	99
60	98	109	109	120	118	132	115	100	105
80	92	100	103	109	111	118	109	106	111
100	90	96	95	103	104	110	104	116	116
140	89	92	91	98	97	101	97	112	119
180	90	92	89	95	94	98	96	106	112
300	91	91	89	92	86	92	89	101	100

As compared with the present system, both the minimal and preferred proposals redistribute income from those with **high** private incomes to those with low (except for pensioners at the top of the present free-income allowance). They also redistribute income from single people and childless couples (particularly couples both working) towards families and pensioners (apart from those at the top of the free-income allowance). However, the transfer of income towards pensioners *with* high private incomes is not nearly as great as happens at present when the means test is abolished (compare Tables 6.19 and 6.20).

Though as compared with the existing system the minimal and preferred proposals exhibit the same trends, the changes are more pronounced in the latter—greater generosity to people with low private income and to families and reduced disposable incomes for the well-to-do and for single people. While the minimal proposal brings about very few reductions in disposable income greater than eight per cent, the preferred proposal reduces a single person's disposable income by up to **11** per cent, with similar reductions for high-income childless couples where both work. On the other hand, many of those who would experience reduced disposable incomes would, under both proposals, receive some compensation by way of reduced marginal tax rates.

Extension of the recommended scheme to the self-employed

Because of Income Survey limitations already explained we are not in a position to make detailed assessments of the incidence of income support schemes on the self-employed (including farmers). However, some rough calculations can be made as to the effect on government finances of the extension of the recommended scheme to the self-employed. These are shown in Table 6.27.

Despite the conservative assumptions used in constructing Table 6.27, we are confident that the recommended scheme could be extended to the self-employed without any disturbance to the minimum-income payments and income-retention rates.

Upon redefinition of private income for tax purposes for the self-employed (see Chapter 6), a surplus might emerge which could be applied to the increase of the income-retention rate or to higher minimum-income payments.

Table 6.27: The recommended scheme, August 1973: extension to self-employed

	<i>Minimal proposal \$/m/year</i>	<i>Preferred proposal \$/m/year</i>
Minimum income payments ^(a)		
Categorical	114	120
Non-categorical	762	1070
TOTAL	875	1070
Add Revenue for other purposes of government^(b)	873	873
	1748	1943
Revenue—35% proportional tax ^(c)	1995	
40% proportional tax		2280
Add surtax ^(d)	46	37
	2041	2317
<i>Less working wives' relief^(e)</i>	200	228
	1841	2089

Sources:

(a) See Table 6.11.

(b) See Table 6.8—£773 in that table has been multiplied by 1.13 to allow for inflation 1972-3 to August 1973.

(c) Private income assumed at \$5700m. Net income of taxpayers with taxable income from a business or profession in 1970-1 was \$3300m; in 1971-2 was \$4393m (Income Tax Statistics). Updating to August 1973 by the National Accounts item 'Net operating surplus of unincorporated enterprises' we get estimates of \$5637m and \$6722m respectively. We conservatively chose \$5700m. This still does not include the salaries and wages of the non-self-employed spouses of the self-employed.

(d) Surtax in proportion to proceeds of the proportional tax in the same ratio as for the non-self-employed. (Table 6.12)

(e) Assuming that all wives of the self-employed work full time and that private income is shared equally between husband and wife.

On the other hand, the incomes of unincorporated businesses are volatile, and in times of depression and low farm prices it may be necessary to reduce income-retention rates to provide minimum-income payments to the self-employed.

The inclusion of the self-employed within the scheme also raises the question as to whether average weekly earnings is the appropriate series for updating minimum-income payments. A more inclusive series, e.g. household consumption plus savings, per capita, may be better. Minimum-income payments would then rise according to the weighted average state of prosperity in all sectors of the economy, rather than be tied to the prosperity of the wage earner.

Tax credits for married couples both working

In the recommended scheme the tax relief for married couples who are both working takes the form of allowing the partner with the lower work income to deduct 20 per cent of that income before applying the proportional tax rate. An alternative would be to allow a straight additional tax credit to working wives. Such a credit of \$3 would raise minimum-income payments by about \$400m. However, it would probably not be administratively workable, because of the difficulty of deciding when a wife is working sufficient hours to justify the credit. Accordingly we prefer the deduction approach in this area.

Provisions for juveniles and other single people

The Canadian Special Senate Committee on Poverty believed that the public was unsympathetic towards young single people who had low private incomes without any work-hindering disability. Accordingly they recommended that their proposed

guaranteed-income scheme be not at first extended to 'single unattached individuals under the age of 40'.³

Seeing signs of such lack of sympathy in Australia as well, we wondered whether we should include a similar recommendation in our scheme. Since it would not do to have an entirely separate tax system for single people outside pension and benefit categories, such a recommendation would envisage including single people within the *minimum-income/proportional* tax scheme, but only paying the minimum income as a tax refund—as an offset to taxes paid. Any amount by which the minimum income exceeded tax due would be stopped.

After some thought, we decided against such a recommendation, for the following reasons:

(1) The administrative task of stopping minimum-income payments to single people earning **low** private incomes would be very difficult.

(2) Research reports on juveniles have indicated that the **lazy** minority for which the public **has** no sympathy is especially small,⁴ and that the low incomes of young people are usually due to low wages or low educational allowances.⁵

(3) The **saving** in minimum-income payments would be **small**. We calculate it at approximately \$122m in both the minimal and preferred variants of **our** recommended scheme, the amounts being similar because the higher payments in the preferred scheme are offset by its lower income-retention rate. Compared to the total payments involved in the scheme this is **a** small saving, and in any case it is overstated because for many young people the minimum-income payments **will** substitute for educational allowances. After allowing for these **the** net reduction in expenditure by denying minimum-income payments to single people would be around \$50m **a** year.

The substitution of minimum-income payments for educational allowances raises a further point: would payments at half the poverty line (minimal proposal) or 62 per cent of the line (preferred proposal) be generous enough towards students?

We are not certain whether students require a full poverty-line guarantee.⁶ Many can supplement their incomes by working part-time or part-year. Perhaps a half-poverty line guarantee would be sufficient for most. On the other hand, it may be desirable to provide additional payments to students with low private incomes. We calculated that an additional payment to all juveniles in training to bring those with no private income **from** the half-poverty line minimum income to three-quarters of the line, means-tested to reduce by 30 per cent of any rise in private income, would absorb only about \$18m. A similar payment to bring them **up** to the poverty line would cost about \$59m. Both these figures belong to the minimal proposal: their equivalents for the preferred proposal would be less because of the higher basic guarantee.

3. *Poverty in Canada, Report of the Special Senate Committee* (Information Canada, Ottawa, 1972), p.187.

4. Alan Jordan, *Long Term Unemployed People under Conditions of Full Employment* (Commission Research Report, AGPS, Canberra, 1975).

5. Australian Council of Trade Unions, *Survey of Young Workers* (Commission Research Report, AGPS, Canberra, 1975).

6. We do not here consider the questions of the incentive to undertake education, and of equity between students and wage-earners.

Why not retain means tests?

In our recommended scheme we in effect abolish the means test on pensions. All income units in the pensionable categories are better off than those of equal composition and private income outside the favoured categories, whatever that level of private income. It might be objected that the principle of helping the poorest first would demand that people with high private incomes should not be given special treatment just because they are in a pensionable category, and that the amounts thus saved should be diverted to the poor.

There are several arguments against **this**:

(1) Retention of the means test within **our** scheme would involve dividing payments to people in favoured categories into two parts, the minimum-income payment (as for the rest of the population) and a means-tested supplement. This would considerably add to the administrative burden of the scheme.

(2) The argument for special treatment in favour of those with disabilities has force, whatever the private income of the disabled income unit.⁷

(3) The retention of means-testing within our scheme would involve imposing very low income-retention rates on pensioners with low private incomes. To achieve any worthwhile saving in minimum-income payments it would be necessary to impose an income-retention rate of (say) 35 per cent (after a 35 per cent proportional tax and a pension reduction of 30 per cent). If imposed without a free-income allowance this would markedly worsen the position compared with the existing system of nearly all pensioners with small private incomes. Even with a free-income allowance many would be made worse off. (Under the recommended scheme, without any means test, some pensioners at present near the limit of their free-income allowance would be made worse off, and means-testing worsens the position.)

(4) Unlike the present position where means tests are abolished, the lack of a means test within our scheme does not greatly improve the position of most middle-income pensioners as compared with the existing system (see Tables 6.19 and 6.20).

(5) The savings within our scheme by imposing means tests in addition to the proportional tax are not great. We calculate that if a 30 per cent means test without free-income allowance were added to the minimal proposal the reduction in minimum-income payments would be about \$228m. If a similar means test were inserted, but with a free-income allowance of \$10 for the first member of the income unit and \$5 for each additional member, the saving would be only about \$154m.

For all these reasons we believe that there should be no means test on minimum income payments to pensioners within our recommended scheme. The proportional tax is enough.

Alternative relativities for children

One of the main parameters of any system of income support is the set of relative

7. It may be claimed that a disabled income unit with a moderate to high private income is a contradiction in terms. We accept this argument for the temporarily unemployed and sick (our benefit category) but not for pensioners. See Chapter 5, Volume 1.

rates of payment to income units of different sizes. We have argued in Chapter 4 that relative rates of payment should be set according to an assessment of financial need for families of different sizes, supported by a survey of expenditure patterns. Such a set of relativities was worked out by the Bureau of the Budget in New York in 1956, and in the absence of anything better we have continued to use this set of poverty-line relativities. However, we recommend that a new set of relativities should be worked out for Australia. When this new set is available, the minimum-income payments should be modified to conform with it.

Though we are not in a position to provide a new set of relativities for Australia, there are one or two suggestions which are worthy of comment. They also provide the opportunity to test the sensitivity of the recommended scheme to changes in relativities. The first is that minimum-income payments graduated by the number of children in a family should be replaced by a payment to all families at the same rate whatever their number of children.⁸

This suggestion can be made for a number of reasons:

(1) *Relative costs*. It may be argued that the costs of families depends as much on the presence of the children as on their number.

(2) *A mothers wage*. The suggestion goes part way towards meeting the demand made by some women that there should be a mothers wage?

(3) *Public sympathy*. It may be argued that, while there is public sympathy for families as such, the large family is unfashionable. Any measure, such as graduated child endowment, which assists large families, may be claimed to encourage excessive reproduction. On the other hand, a flat-rate allowance per family helps towards meeting child-rearing costs without providing any financial incentive to increase family size.

(4) *Smoothing income over time*. There is a further argument, based on the insurance analogy. It will be recalled from the discussion in Chapter 4 that the insurance analogy justifies payments to the elderly by analogy with private super-annuation. They are seen as a means of maintaining relative disposable incomes as private incomes decline in old age. The payments are thus related to earnings during the person's working life. Again, the insurance analogy justifies earnings-related payments to people whose private incomes are suddenly reduced due to illness.

It is but a step from these arguments to propose that it is a government duty to smooth out the fluctuations in an individual's disposable income over his lifetime. When his income is at a peak, he should make 'contributions'; when it is in a trough, he should receive benefits—whether or not the trough is low relative to other people.

Extending this argument from individuals to income units, it may be observed that the typical income unit experiences peaks and troughs in its private income. Typically, there is a peak when both husband and wife are working just after marriage. They then start a family; the wife stops work, and there is a trough in

8. We owe this suggestion to Professor R. M. Titmuss per Richard Balfe.

9. This suggestion was made in a submission by the Australian Council of Social Service (Income Policies) and was further discussed with the Council—see Transcript of Public Hearing, Melbourne, pp.193-5. The suggestion was repudiated by another A.C.O.S.S. group. See Transcript of Public Hearing, Canberra, p.2156.

private income. This is followed by a peak after the wife returns to work.¹⁰ It was suggested to us that income-maintenance payments were justified to all income units while they were receiving relatively low private incomes during their child-rearing period.¹¹

Considering the first of these arguments, relative costs, there are undoubtedly some costs which appear with the first child and not others (e.g. perhaps child-minding costs). However, we do not think it at all plausible that additional children do not occasion additional costs. This question should be answered by the recommended Australian investigation of relativities.

Considering the second and third arguments, we do not propose as a Poverty Inquiry to comment on the suggestion that mothers should be paid a wage, nor on any supposed incentive to reproduce excessively.

Concerning the fourth argument, smoothing income over time, in Chapter 4 we reject the insurance analogy as a general basis for income-support schemes. Under this analogy income-maintenance entitlements become so large that either tax rates rise to extortionate heights or the basic rates of payment fall so low that those without private incomes are left very poor. This rejection applies with even greater force to the suggestion that the government has a duty to smooth the time-distribution of disposable incomes of all families with a wife in and out of the workforce. We rather see payments to families as justified by the differing needs of different sizes of family, and by the government duty to ensure that families do not fall into poverty, but not by any supposed duty to reduce the peaks and fill the troughs of the lifetime distribution of income.¹²

Given that payments to families are primarily a means of ensuring equity between families of different sizes (see Chapter 5) there may be a case for some use of flat-rate payments which do not vary with family size. If the whole of the minimum-income payments going to income units with children under the preferred proposal were distributed in this way, the payment would be \$36.50 per income unit (\$29.00 under the minimal proposal). The trouble with these rates of payment is that they would leave large families on low wages in poverty (assuming the New York relativities to be approximately correct).

The original Titmuss suggestion was that the needs of large families on low private incomes should be met by an additional means-tested payment—a Family Income Supplement. In that this would be available to a relatively limited group,¹³ there is hope that the take-up problems would be less than for a general family-income supplement. Such a supplement might be specified thus within the preferred scheme:

- (1) A flat-rate benefit of \$36.50 for all families with children.
- (2) Supplements sufficient to bring large families on the minimum wage out of poverty, tapered away at 30 cents reduction for every extra dollar of private income.

10. Submission, Australian Council of Social Service (The Family Life Cycle).

11. Transcript of Public Hearing, Melbourne, Australian Council of Social Service (Income Policies), pp.193-5.

12. On the other hand, it is desirable that the Government see that suitable financial instruments are available to enable families to do this for themselves if they want to.

13. There were about 222 000 non-categorical families with four and more children in Australia in August 1973, as against 1 447 000 smaller families.

Assuming complete take-up, outgoings on this family supplement would be only about \$24m a year, as against \$136m to provide full poverty-line related minimum-income payments to all large families. However, the proposal would subject about a third of all large families to an income-retention rate of 35 per cent. Because of this, and because of likely take-up problems and administrative bother, as well as the denial of horizontal equity between different family sizes, it may be doubted whether the reduction of \$112m in payments to large families is worthwhile.

An alternative, which retains some degree of flat-rate payment, would be to make minimum-income payments of \$34.20 for families with 1-3 children, and \$50.25 for families with four and more children (preferred proposal: \$27.50 and \$39.30 under the minimal proposal).

Relativities disregarding marriage

In Chapter 4 we argued that minimum-income payments should be on an income-unit basis, and that the payment for a married couple should be somewhat less than twice the payment for a single adult. The alternative would be to make minimum-income payments disregarding marriage, with a single rate for all adults, and a different rate for children. There are those who argue that such rates better reflect relative costs of living and have the advantage of continuing current tax practice, by which married couples both working are regarded as two separate individuals. Under such relativities, again, there would be no point in providing working wives' relief, since the wives would count as separate individuals whether working or not.

As explained in Chapter 4, we are not persuaded by these arguments. However, for interest's sake we assessed a version of our recommended scheme with minimum-income payments disregarding marriage. The rates are shown in Table 6.11. Proposal A had minimum-income payment for a single categorical adult at the same level as under our minimal proposal, with the married rate double. Proposal B was analogously related to our preferred proposal. Table 6.28 sets out our calculations.

Table 6.28: The recommended scheme, August 1973: relativities disregarding marriage (non-self-employed only)

	<i>Proposal A</i> \$m/year	<i>Proposal B</i> \$m/year
Minimum-income payments	7379	8690
<i>Add revenue for other purposes of government</i>	2310	2310
	9689	11000
Revenue		
39% proportional tax	9709	
44% proportional tax		10954
Surtax	156	104
	9965	11058

It can be seen from the table that a version of the recommended scheme which disregarded marriage but was otherwise similar to the minimal proposal would have an income-retention rate four per cent lower, with a similar reduction for a proposal analogous to the preferred proposal.

Differences between proposal A and the present system are summarised in Table 6.29. This should be compared with Table 6.25, the equivalent table for the minimal proposal.

Table 6.29: Disposable income under the recommended scheme (disregarding marriage, proposal A) as a percentage of average disposable income under the present system, as at August, 1973

<i>Income unit</i>	<i>Single</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Single pensioner</i>	<i>Couple pensioner</i>	<i>Single pensioner</i>
<i>Children</i>	0	0	0	2	2	4	0	0	2
Private income									
0	∞	∞	∞	1800	1800	750	123	142	118
20	130	195	195	218	218	219	93	114	98
40	103	134	128	143	143	150	102	104	95
60	94	116	112	124	118	128	114	110	103
80	90	106	103	112	109	115	109	116	108
100	88	101	96	105	102	107	104	125	114
140	88	97	90	99	94	99	97	119	108
180	89	100	87	97	91	97	96	112	105
300	91	99	80	94	83	96	94	106	100

As may be expected from their specification, relativities disregarding marriage worsen the position of single people, whether they be pensioners or non-categorical. The position of married couples is improved if they are pensioners or have only one member working. The position of married couples both working is improved when their combined earnings are low, but worsens as their private incomes rise.

Though Proposal A has a practicable income-retention rate (61 per cent—the 56 per cent of Proposal B is rather low) it affects the position of some single taxpayers too severely to be an improvement on the minimal proposal.

A guaranteed-income scheme without categorisation

Given our discussion in Chapter 4 of the disadvantages of categorisation, and of the advantages of the income approach, we might be expected to produce an income-support system which abandoned categorisation. We did in fact assess a version of our recommended scheme which provided poverty-line minimum-income payments without regard for category. The rates of payment are given in Table 6.11 and the calculations in Table 6.30.

Table 6.30: The recommended scheme, August 1973: full poverty-line for all (non-self-employed only)

	<i>\$m/year</i>
Minimum-income payments	10190
Add revenue for other purposes of government	2310
	12500
Revenue	
50% proportional tax	12448
Surtax	52
	12500

We decided not to recommend such a scheme for two reasons:

- (1) A fifty per cent income-retention rate on all private income is probably too low for public acceptance.
- (2) The disability approach to categorisation gives a valid reason for preference to those who are hindered in working for a living.

A non-categorical scheme with relativities disregarding marriage

In Appendix 1 to this volume we record a suggestion by Mr Peter Payne of the Smith Family that the difficulties inherent in determining single-parent status should be avoided by 'a negative income tax policy which will cater for each member of the community as an individual rather than as part of a family unit'. This would amount to superimposing relativities disregarding marriage on a scheme without distinction according to category. Whatever its merits of principle, this scheme is impractical since the resulting income-retention rate would be about 42 per cent (see Table 6.31).

Table 6.31: The recommended scheme, August 1973: full poverty-line for all, disregarding marriage (non-self-employed only)

	<i>\$m/year</i>
Minimum-income payments	12122
<i>Add</i> revenue for other purposes of government	2310
	14432
Revenue	
58% proportional tax	14439

A kinked tax-rate proposal

If the 50 per cent income-retention rate implied by the recommended scheme without categorisation were the main reason for rejecting it, categorisation could still be avoided by setting the general minimum-income payments at low levels, and paying a supplement to all income units with low private incomes, whether they are categorical or not. The scheme is illustrated in Figure 6.1, with calculations in Table 6.32. The basic rates of payment are given in Table 6.11. The means-tested supplement would make a maximum payment to people with no private income equal to the categorical minimum-income payments under the minimal proposal, also shown in Table 6.11, but be withdrawn with a 30 cent reduction for each extra dollar of private income.

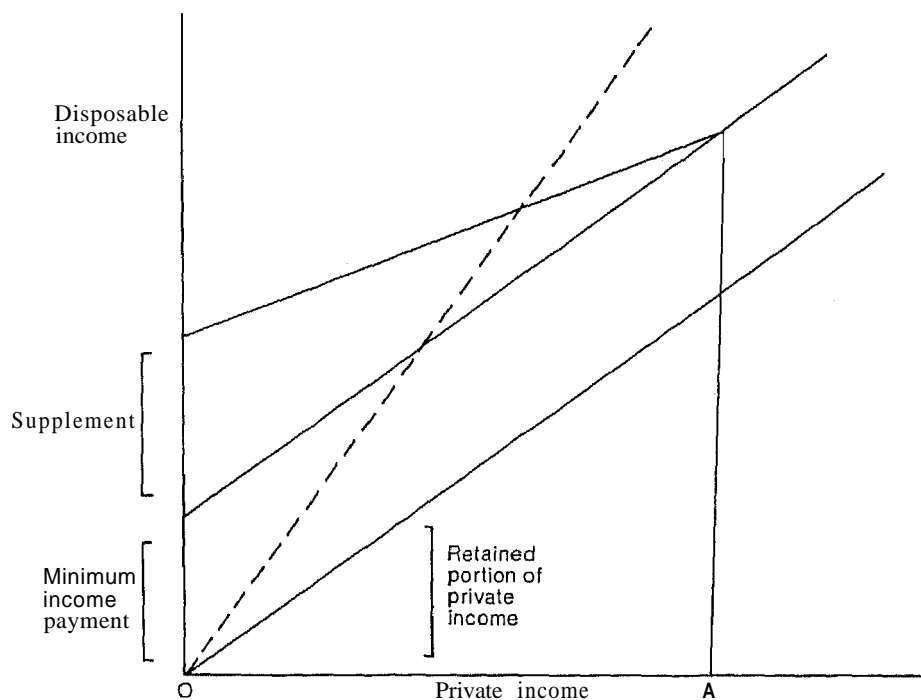
Table 6.32: The recommended scheme, August 1973: half poverty-line minimum-income payments, with means-tested supplement (kinked tax-rate proposal—non-self-employed only)

	<i>\$m/year</i>
Minimum income payments	5127
<i>Add</i> supplements	1142
<i>Add</i> revenue for other purposes of government	2310
	8579
Revenue	
35% proportional tax	8713
<i>Add</i> surtax	200
	8913
<i>Less</i> working wives' relief*	263
	8650

* See Table 6.12.

Table 6.33 compares the incidence of this proposal with the present system (cf Tables 6.25, 6.26, 6.29 and 6.37).

Figure 6.1: Kinked tax-rate scheme



Unlike the minimal proposal on which it is based, this version of the scheme avoids the necessity to define special categories, as well as guaranteeing all Australians against poverty, including the large families which are left poor under the minimal proposal. As can be seen from Table 6.33, the position of all non-categorical income units with low private incomes is much improved compared with the present system. On the other hand, nearly all pensioners are worse off. Given the cogency of the disability defence of categorisation, this alone is reason enough for rejecting the proposal. Other objections are covered in the earlier discussion of means-tested

Table 6.33: Disposable income under the kinked tax-rate proposal as a percentage of average disposable income under the present system, as at August, 1973

Income unit	Couple both work		Couple both work		Couple both work		Single pensioner	Couple pensioner	Single pensioner
	Single	Couple	Couple	Couple	Couple	Couple			
Children	0	0	0	2	2	4	0	0	2
Private income									
0	∞	∞	∞	2800	2800	1233	123	100	118
20	170	225	230	186	320	312	81	78	90
40	111	137	135	167	171	191	82	69	81
60	98	107	107	131	127	148	95	71	83
80	94	99	100	111	109	123	94	80	86
100	93	97	96	101	102	110	93	91	88
140	93	94	92	98	96	98	91	94	95
180	100	99	91	97	95	96	92	93	95
300	96	100	86	95	88	92	93	94	94

payments to categorical income units. We need only mention the administrative difficulties of paying means-tested supplements to something like a third of total income units, and the problems of subjecting a large proportion of the population to low income-retention rates.

Conclusion—variants of the recommended scheme

We have now presented several versions of the recommended scheme, with various relativities between different kinds of income units, and various degrees of means-tested additional payment.

Our calculations show that the abandonment of discrimination in favour of special categories would be unrealistic and unfair.

In the absence of Australian data, our conclusions on relativities between different sizes of income unit must be agnostic. However, our calculations show that rates of payment more favourable to married couples than our poverty-line relativities imply lower income-retention rates if single people (especially single pensioners) are not to fall into poverty.

By and large we are against including means-tested additional payments in our recommended scheme. They are administratively troublesome, have take-up problems and impose low income-retention rates. In some cases their inclusion in the recommended scheme would worsen the position (compared to the present) of people on quite low private incomes, while generally the amount of money denied to the well-to-do is quite small. (The exception is the Income Supplement for large families, but there are reasons of horizontal equity for rejecting the means-tested approach.) However, certain limited income-tested additional payments seem justified, and are included in our minimal and preferred proposals.

These are:

- (1) Payments to beneficiaries.
- (2) Additional payments for those experiencing special costs, including renters (see Appendix 2 of this Volume and Chapters 5 and 10).
- (3) Payments to students.
- (4) Emergency payments, where these are not loans.

A PROGRESSIVE NEGATIVE INCOME TAX

Introduction

For several generations now Australia has had a progressive income tax, in the technical sense that the proportion of his income which a taxpayer yields rises as his income rises. This is achieved by means of a schedule of rates, in which the marginal rate (the tax paid out of an extra dollar income) is always higher than the average rate (total tax/total income). We have been taught that this design of tax schedule is the keystone of any plan for the redistribution of incomes by taxes and transfer payments. Why, then, should the Commission of Inquiry into Poverty propose that it be abandoned and replaced by a proportional tax, which some regard as an antiquated notion that went out with the Whigs and free trade and utilitarianism?

But the Poverty Commission is not proposing the replacement of the present progressive income tax with a proportional tax and nothing else. Rather, we propose

a set of minimum-income payments which offset the proportional tax. Since the minimum-income payments are constant at all levels of private income, they more than offset tax due at very low private incomes, and only marginally offset it at high private incomes. After taking both the tax and the payments into account, the taxpayer with a high private income still pays a higher proportion of his income in tax than the taxpayer with a low private income. This is reinforced by the proposed surtax, which would maintain high marginal tax rates on the wealthy.

The recommended scheme is thus progressive and redistributive. *All* the same, is it desirable to abandon our old friend (or familiar enemy) the progressive tax schedule? Can the aims of our recommended scheme be met while maintaining a progressive rate of schedule? Can means tests on minimum-income payments to categorised income units also be abolished as part of the scheme? The following calculations tend to show that these aims are incompatible.

The specification of a progressive negative income tax

A progressive negative income tax would combine a progressive rate schedule with tax credits or minimum-income payments dependent on the demographic composition and categorical status of income units. These payments are in principle similar to those in the recommended scheme, and can only be determined if there is a precise definition of the income unit. However, unlike the proportional tax (which applies impartially whoever is receiving the income), a definition of the income unit is also crucial to the calculation of liability under a progressive tax.¹⁴

We have already given our reasons for preferring that both social security entitlements and tax liabilities should be on an income-unit basis (see Chapter 4). Thus the minimum-income payments specified in the following examples of progressive negative income taxes are on an income-unit basis. They are listed in Table 6.11. Again, the progressive tax schedule is applied to the income unit. However, married couples can be treated in two different ways:

(1) Applying the tax schedule to the aggregate private income of the couple tends to make married couples who are both working much worse off than under the existing system, so we therefore specify (as under the recommended scheme) that the partner with the lower earned income be able to deduct 20 per cent of her earnings before adding them to the income-unit total.

(2) Allowing married couples to divide their income by two before applying the schedule (the 'income-splitting' approach) tends to worsen the position of single people severely, so we therefore specify that single people can deduct 9 per cent of their private income before applying the schedule.

The schedules of rates for these two schemes are shown in Tables 6.34 and 6.35. Table 6.36 sets out our calculations had these schemes been operating as at August 1973, and had the incentives in them had no effect on the income distribution and the categorical status of income units.

The comparative incidence of the income-splitting and income-aggregation approaches depends on the schedules employed and deductions allowed. In our

14. See discussion in Treasury Taxation Paper No. 6, *Personal Income Tax: The Tax Unit* (AGPS, Canberra, 1974).

Table 6.34: Progressive negative income tax, as at August 1973: income-aggregation proposal, schedule of marginal rates

<i>Private income per income unit^(a) \$/week</i>	<i>Proposed schedule %</i>	<i>Compared with present schedule (approx.): income units with one income earner %</i>
Under 60	15	0-22
60 and under 120	30	22-36
120 and under 180	4s	36-44
180 and over	60	44-67

^(a) After deduction of 20 per cent of earned income of working wives in the case of married couples both working.

Table 6.35: Progressive negative income tax, as at August 1973: income-splitting proposal schedule of marginal rates

<i>Private income per income unit^(a) \$/week</i>	<i>Proposed schedule %</i>	<i>Compared with present schedule (approx.)</i>	
		<i>single person %</i>	<i>married couple with one earner %</i>
Under 30	16	0-13	0-20
30 and under 60	30	13-22	20-36
60 and under 90	45	22-30	36-44
Over 90	60	30-67	44-67

^(a) Married couples divide their total by two. Single adults (with and without dependants) deduct 9 per cent.

Table 6.36: Progressive negative income tax, as at August 1973 (non-self-employed only)

	<i>Income aggregation \$m/year</i>	<i>Income splitting \$m/year</i>
Minimum-income payments		
Categorical	2247	2247
Non-categorical	1918	2720
TOTAL	4165	4967
Add revenue for other purposes of government	23 10	2310
REVENUE	6475	7277

Table 6.37: Disposable income under the progressive negative income tax (income-aggregation proposal) as a percentage of average disposable income under the present system, as at August 1973

<i>Income unit</i>	<i>Single</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Couple both work</i>	<i>Couple</i>	<i>Single pensioner</i>	<i>Couple pensioner</i>	<i>Single pensioner</i>
<i>Children</i>	0	0	0	0	2	4	0	0	2
<i>Private income</i>									
0	∞	∞	∞	650	650	283	123	116	121
20	115	225	130	136	136	131	105	105	109
40	108	137	108	112	112	111	122	104	110
60	104	107	107	108	105	106	139	114	121
80	101	99	103	103	103	100	131	122	128
100	100	97	99	100	100	97	125	134	134
140	96	96	84	95	95	92	112	126	124
180	96	99	91	93	92	91	110	116	116
300	87	92	81	85	81	81	96	103	102

particular example of the income-splitting approach we allowed a rather **small** deduction to **single** people, amounting to a heavy increase in their taxes. However, there is no reason **why** manipulation of these variables should not produce income-aggregation and income-splitting schemes very similar in their **final** incidence. We will therefore confine our further discussion to the income-aggregation version of the progressive negative income tax. Its incidence is compared with the present system in Table 6.37.

Assessment of the progressive negative income tax

This proposal is of interest, not only for its own sake, but because of its similarity to the present system after abolition of the means test on all pensions and some broadening of child endowment into a general minimum-income payment. The more significant changes from the present system include:

(1) **Tax rates.** Marginal tax rates are generally heavier, particularly on the middle-income groups.¹⁵ Such increases are necessary to finance the increased pensions and other minimum-income payments. However, many middle- to high-income families (particularly small families) do not experience quite as large a reduction in their disposable income as they would under our preferred or **minimal** proposals, even though the marginal tax rates they pay are much higher than in the recommended scheme.

(2) **The position of pensioners with high private incomes.** The scheme involves substantial improvements to the position of pensioners **with** high private incomes. **This** is the unavoidable consequence of removing the means test with a progressive income tax. In this and other respects the scheme is almost the exact opposite of the kinked tax-rate proposal (compare Tables 6.33 and 6.37).

(3) **Minimum-income payments.** The minimum-income payments available under the scheme are not very generous. The payment to pensioners is no better than under the minimal proposal, so that while the pensioner with a private income does well, his contemporary with **no** other source of funds gets a poverty line payment and no more. Similarly the minimum-income payments to non-categorical income units are low; much lower than under the minimal proposal. The incentive to court categorisation is therefore stronger than in the recommended scheme, though perhaps a little **less** than at present.

(4) **The position of large families.** As a result of its low minimum-income payments, the scheme does very little to better the position of the low-income large family. Whereas the preferred proposal provides for a 32 per cent increase in the disposable income of a four-child family on the minimum wage, and the minimal proposal provides 19 per cent, this scheme would better their position by only **6** per cent — far from **sufficient** to bring them out of poverty.

We are now in a position to check the progressive negative income tax against the list of aims of a reformed income-support scheme given in Chapter 6.

(1) **One system for all.** Does it emphasise that the right to a minimum income and the obligation to pay taxes are but two parts of the same relationship **between**

15. See Table 6.34. The increase is all the more in that we have assumed the abolition of concessional deductions.

the citizen and the government? Yes, to some extent, because all citizens would receive minimum-income payments, and all except those with no private income would pay income tax. However, compared with the recommended scheme, the minimum-income payments to non-categoricals are so low as to be a perfunctory acknowledgement of principle rather than an essential part of the scheme.

(2) *Reduced emphasis on categories.* Does the scheme reduce the emphasis on special categories in the determination of entitlements and obligations? Again, yes, as compared to the present scheme, and again not as much as the recommended scheme.

(3) *Logical income-retention rules.* Does the scheme provide for a logical sequence of income-retention rates? Yes, it does about as well as the recommended scheme, save that the proportional tax is replaced by a progressive schedule. Because of the low minimum-income payments to non-categoricals, however, it will be very hard to avoid paying rates of unemployment benefit higher than the net return from a low-wage job, at least to breadwinners with families.

(4) *Treatment of fluctuating incomes.* Does the scheme favour neither those whose private income fluctuates nor those whose private income is steady? No; only the proportional tax is impartial in this regard.

(5) *Administrative practicability.* Does the proposal lighten the administrative load? No; it seems to offer the worst of both the present system and the recommended scheme, with both the payment of minimum incomes to all and the taxation of all income according to a progressive schedule. The only saving lies in the abolition of means tests for pensioners.

(6) *Adequacy of support.* Does the scheme provide such minimum-income levels that Australians would not find themselves in poverty? For pensioners the answer is 'Yes', though their guarantee is the poverty line and no more. For others, particularly the large family, 'No'.

Given that the worst of these objections is the treatment of large families, what might be done? The alternatives are higher minimum-income payments or a Family Income Supplement.

Increased minimum-income payments could be achieved by changing the relative rates of payment to favour large families quite blatantly. The changes to the scheme shown in Table 6.38 are self-balancing financially and would increase minimum-

Table 6.38: Progressive negative income tax (income-aggregation approach): alternative minimum-income payments to non-categorical income units

<i>Income-unit type</i>	<i>Original proposal (see Table 6.11) \$/week</i>	<i>Alternative rates \$/week</i>
Single person	6.10	4.50
Married couple	8.60	7.50
" " 1 child	10.70	10.70
" " 2 children	12.70	12.70
" " 3 "	14.70	19.20
" " 4 "	16.70	28.20
" " 5+ "	19.30	39.80 ^(a)

^(a) average rate for families with 5 and more children.

income payments to large families sufficiently to **bring** those on the **minimum** wage to the poverty line.

Given that the progressive negative income tax in its original formulation is relatively generous to single people, the reduction in their minimum-income payments is perhaps bearable. However, the extra payments to large families are very large and may not be popular.

An alternative way of increasing minimum-income payments is to do so across the board, thus improving the horizontal equity and incidentally bettering the lot of the large family at the same time. We incline to this solution. However, it cannot be managed except in the context of major compensating changes in the tax structure, resulting in the recommended scheme rather than a progressive negative income tax.

Another way to look after large families within the progressive scheme would be by a Family Income Supplement, specified so that minimum-wage earners are brought up **to** the poverty line whatever their size of family. This involves making means-tested supplements available to families with three children and above. The means test could be set to provide an income-retention rate of 40 per cent. Taking the minimum wage of \$60 a week, minimum-wage earners and those earning up to \$120 a week will be paying 30 cents income tax on each extra dollar earned (see Table 6.34). There is room therefore for a 30 cent reduction in the supplement, to give an income-retention rate of $100 - (30 \div 30) = 40$ per cent.

Such a supplement would involve the government in payments totalling about \$25m,¹⁶ as against extra payments to large families of \$125m brought about by the proposals of Table 6.38. The Family Income Supplement could thus be brought in at the cost of a very small reduction in minimum-income payments to single people, or a slight degree of means-testing for categoricals. However, it has several disadvantages:

(1) We have already mentioned the administrative and take-up problems of such schemes. In this case they might be supportable, for the total number of income units eligible is only around 72000, drawn from the limited group of families with three and more children.

We have suggested elsewhere¹⁷ that taxation returns might be used to improve take-up and ease assessment for additional payments to non-categorical income units. This involves making the supplementary payments as part of the annual tax refund. However, in a scheme where the entitlements would run as high as \$900 a year for a five-child family, annual payment might not be satisfactory, and a more complicated system for earning take-up and determining amounts due would have to be evolved.

(2) The supplement imposes an income-retention rate of 40 per cent on those large families with a private income low enough to make them eligible. Assuming complete take-up, these would be an appreciable proportion of total large families. Further, another group would be liable to 40 per cent income-retention rates because of their higher incomes. The rough proportions are given in Table 6.39, which shows that the combination of the progressive negative income tax and the **Family** Income Supplement imposes a 40 per cent income-retention rate on more than half the total number of large families (four-child and above). Indeed, for

16. Non-self-employed only.

17. Rent supplement scheme, Chapter 10, Volume 1.

families with six children and above there is not enough room to phase the supplement out before the 60 per cent marginal tax-rate cuts in. The combined scheme thus subjects an important group of people to low income-retention rates, and is undesirable for this reason.

Table 6.39: Proportion of total non-categorical non-self-employed income units subjected to an income-retention rate of 40% by the combined progressive negative income tax/family income supplement scheme, as at August 1973

<i>Income-unit type</i>	<i>Proportion receiving supplement %</i>	<i>Proportion paying tax at 60% marginal rate %</i>	<i>Total %</i>
Married couple + 3 children	6	22	28
” ” ” 4 ¹	24	26	50
” ” ” 5+ ”	56	24	80

Conclusion

Our attempt to combine minimum-income payments with a progressive tax schedule has landed us with the worst of both the present system and the recommended system. In its attempt to rectify the disadvantages of the present system, it courts the drawbacks of the recommended scheme without its advantages. This investigation convinces us that attempts to meet our aims of reform by cumulative changes in the existing system will become lost in their own inner contradictions. Better by far to start out again with something simpler, which yet takes over the virtues of the present system. We believe that the recommended scheme provides this simple, secure basis for reform.