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6 Income support : a guaranteed income scheme

We now leave reforms which can be made within the broad outlines of the existing social security system, and consider the ways in which income support should be provided in the medium-range future. We specify and discuss such a scheme, but are conscious that it cannot be implemented until much more attention has been given to its details and ramifications. On the other hand, there is a limit to the improvements that can be managed strictly within the present system; a limit to the extent to which its inherent drawbacks can be overcome. We believe that the guaranteed income scheme which we propose provides a framework which better meets the fundamental purposes of social security, and that urgent attention should be given to developing it for implementation.

INHERENT STRENGTHS AND SHORTCOMINGS OF THE PRESENT SYSTEM

Though the weight of this Report is directed towards reform, it would be unwise to make suggestions without a lively appreciation of the strengths of the existing provisions. By and large they provide for a transfer of income from those who have enough to those who otherwise would have little, with very few extraneous flows of funds. The system is remarkably free of the insurance complications which encourage such extraneous flows elsewhere. It covers nearly all people who are at risk of poverty and, while its basic rate of pension may not be as high as it should, the income retention rates allowed are for the most part as generous as any overseas. There is every reason to think carefully before abandoning these advantages.

Not only has the present system many virtues as it stands; these can be compounded by appropriate piecemeal reform. Elsewhere in this Report we suggest extensions to the categories of people favoured as pensioners **and** beneficiaries, which should mean that no person at risk of poverty will henceforth be denied an income. We recommend extensions to the variety of additional payments offered to cover various contingencies, especially the wide variety of circumstances brought about by differences in housing costs. To give priority to those with greater need, income tests should be retained, but there is scope for reform in various directions to increase their fairness. This involves reform of the tax system, which should also be improved to allow a greater measure of support for large families — particularly large families on low incomes.¹ Finally, pension rates should be so increased and updated that pensioners and beneficiaries are not allowed to fall below the poverty line. All this can be done, and should be done promptly, within the present system.

These improvements would do much for the alleviation of poverty. With pension rates at or above the poverty line, and with all people with a disability which hinders their earning an income eligible for pension or benefit, few would fall below the poverty line. However, the system would retain a number of inherent drawbacks which cannot be overcome without more radical reform. These shortcomings may be summarised under the headings **(1)** the continuing prominence of disability categories and **(2)** continuing divided administration.

1. See measures in Chapter 5.

The continuing prominence of disability categories

As already pointed out in Chapter 5, a system which gives favoured treatment to particular categories of people has built into it both the incentive to gain a disability and the likelihood of inequity between people on one side of the boundary line of a favoured category and those left out on the other side. These disadvantages of the categorical approach are particularly strong when the alternatives are **full** pension or no entitlement at all. Someone who is assessed as **86** per cent incapacitated gets a full invalid pension; someone who is only **84** per cent incapacitated gets nothing. While it is true that our piecemeal reforms would provide income support for many who now have reasonable claims to assistance yet find themselves outside the traditional favoured categories, boundaries must still be drawn, and in them lies the probability of inequity. While it may not be practicable to do away with favoured categories entirely, it should be possible to reduce the gap in entitlement between those who qualify for favoured treatment and those who do not. This involves extending social security entitlements to the whole population, and not merely to those who are in the special categories, and so introduces fundamental change.

There are, of course, proposals that extra entitlements of this kind might be introduced within the present system. This would involve adding further special categories with entitlements at less than full pension level. The most common proposal is for a family income supplement, directed towards large families with low private incomes. Such proposals would ease the lot of particular groups without removing the fundamental criticism. A thoroughgoing attack on the inequities present in categorisation would not succeed through the invention of more categories, it would rather try to reduce the gap between those who are in the favoured categories and those who are outside.

Continuing divided administration

The system retains two separate administrations, one concerned with income support mainly for poor people, and the other charged with raising income tax from those with rather-less-than-middle incomes and above. In addition, certain other means-tested benefits are available from third sources, notably the Australian Department of Education. There are many cooks. The broth curdles.

Poverty traps

We have already seen how the uncoordinated activities of these various Departments can result in very low income retention rates. While we have recommended that every effort be made to avoid these traps, this is very difficult so long as a number of separate programs persist. **Full** coordination requires administrative integration.

Fluctuating incomes

The present system, with its range of benefits and its varied income retention rates, tends to favour those who have fluctuating incomes, as against those with steady incomes. For example, consider two single men with private incomes of \$3900 a year. The first earns \$150 a week for six months and is unemployed for

six months; the second earns his **\$3900** by working steadily at \$75 a week. Both pay income tax of about **\$450**, but the first receives six months' unemployment benefit, worth (April 1974) **\$676**. The first ends up with a disposable income of **\$4,126**, the second with \$3450 — surely a poor reward for steady diligence. Similarly, pensioners with fluctuating incomes may be better off than those with a steady private income. Admittedly, the Department of Social Security endeavours to adjust payments on the basis of annual income, but this does not prevent the widow whose private income is high in one year and zero the next obtaining much more by way of pension than the woman whose steady private income totals the same over the two years. Such inequities are concealed by taxes and means tests with the varied income retention rates which all too easily result from divided administration.

Take-up

Given that there are two separate systems, transfer from taxpayer status to that of pensioner or beneficiary is by no means automatic. 'Because the onus is on the individual to apply for a social security payment . . . the present system discriminates against persons who are ignorant of bureaucratic regulations'.² While we do not propose that money should be forced on people if they do not want to take it, we fear that most of the observed failures to take up are due to ignorance rather than the other-worldliness that despises an income. Though evidence on take-up rates is incomplete? there is enough to warrant suspicion that pensions and benefits are not getting through to many who are entitled to them, and who would gladly claim them if only they knew how. Publicity campaigns could be of assistance here, but so also could any move which increased government efforts to find the missing pensioners and beneficiaries individually, rather than waiting for them to come to the office. In such an effort, the data already collected in the administration of the income tax are an obvious starting point. They could not be used in their present form, and there would need to be safeguards for privacy, but the fact remains that the income tax system is in contact with many potential pensioners and beneficiaries and could provide the basis of a more nearly automatic pension system.

Segregation by income

Finally, having one administration providing assistance for poor people with another raising funds from the not-quite-poor (and to quite an extent from poor people themselves) maintains a social segregation by income. There are those who feel that their pride is compromised by any necessity to deal with the poor **man's** administration; those who feel they have been sent for charity. The cause for these feelings could be removed if the two administrations were merged, or at least if the operations of both were extended to cover the whole income range (**as** child endowment does now).

These criticisms may seem utopian, but they are made to a purpose; it is possible by moderately radical reform to provide a single system combining social

2. See Chapters 3 and 7.

3. Submission, **Australian Council of Trade Unions**, Melbourne, p.39.

security and taxation which is a considerable improvement over present arrangements in all these respects.

A GUARANTEED INCOME SCHEME

The aims of reform

We have already argued that concessional tax deductions for dependants and education should be replaced by tax credit, by dollar amounts which would be subtracted directly from tax due. Further, we have recommended that these tax credits should be made available where possible to the whole population, not merely to those who have a tax liability against which credits can be offset. This can be done if the tax credit is converted into a separate payment — a universal tax refund. Thus tax deductions for children would be abolished, and the replacement tax credits would not be deducted from tax, but rather added to child endowment. With further modifications to the tax system, an extension of these changes could provide the reformed social security system which we seek.

The aims of such a reformed system would be:

- (1) To emphasise that the right to a minimum income and the obligation to pay tax are but two sides of the same coin.
- (2) To reduce the emphasis placed on special categories in the determination of entitlements and obligations.
- (3) To provide minimum income levels such that Australians do not find themselves in poverty.
- (4) To assure all citizens of a logical sequence of income retention rates as private income increases.
- (5) To favour neither those whose private income fluctuates nor those whose private income is steady.
- (6) To lighten the administrative load of social security and taxation.⁴
- (7) To achieve all this without markedly worsening the position of any person compared with the present system.

Fundamentals of the guaranteed income scheme

We now present two proposals which we believe would go far towards reaching these goals. One we will refer to as our minimal proposal, for we believe that it is the least that can be done towards improving the system of income support. The other plan is our preferred proposal, which is distinguished by its greater generosity to those with low private incomes. Despite this difference, the two proposals are but different specifications of the one scheme, the one basic design, which, in its simplest form, comprises:

4. Guaranteed income schemes directed towards these aims were recommended in: The Australian Council of Social Service, *Consumer Groups and their Views on Welfare Services* (Commission Research Report, *Consumer Views on Welfare Services and Rented Housing*, AGPS Canberra, 1975), p.9; Australian Red Cross Society, New South Wales Division, 'A Study of Thirty City Families' (Commission Research Report, *Chronic Poverty: City and Country Families*, AGPS, Canberra, 1975), p.26; Jan Salmon, *Resources for Poor Families: An Experimental Income Supplement Scheme* (Commission Research Report, AGPS, Canberra, 1974), p.82; Submission, Australian Council of Trade Unions, Melbourne, p.40.

- (1) A set of regular payments to all citizens, called minimum income payments. These would be on the lines of the present child endowment, but much extended in scope.
- (2) A proportional tax on all private income, without exception.

Thus the disposable income of the family would consist of its minimum income payment, plus the proportion of its private income retained after taxation.

That is:

$$\text{Disposable income} = \text{guaranteed minimum} + (\text{private income} \times (1 - \text{tax rate}))$$

or

$$\text{Disposable income} = \text{guaranteed minimum} + (\text{private income} \times \text{income retention rate})$$

If for a given income unit the guaranteed minimum income payment was \$30 a week, and the income retention rate was 65 per cent,⁵ a private income of \$120 a week would yield a disposable income of $30 + (120 \times 0.65) = \108 a week. A private income of \$70 would yield a disposable income of $30 + (70 \times 0.65) = \75.50 a week.

Figure 6.1: Ratio of disposable income to private income

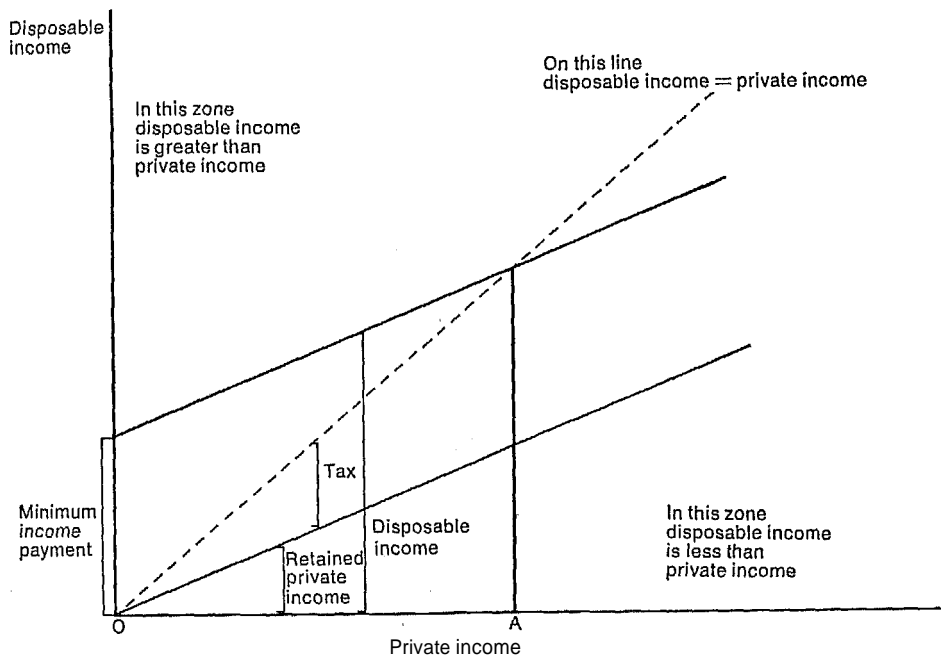


Figure 6.1 shows the principle of the guaranteed income scheme. Disposable income (shown vertically) is composed of the sum of the minimum income and the retained portion of private income. At a private income of nil the minimum

5. The income retention rate is the rise in disposable income that results from a rise in private income after allowing both for the rise in income tax and any falls in means-tested benefits. The latter do not occur in this scheme.

income alone is received. **As** private income increases the whole minimum income payment continues, and is added to the retained portion of private income. Disposable income thus rises as private income rises, but more slowly. Families with private income less than **OA** receive a net payment from the government, families with a private income greater than **OA** make a net tax payment to the government.

We selected a scheme of this general design after some consideration of alternatives. This consideration took two forms:

- (1) **A** theoretical evaluation of the various elements that can be put together into a package scheme of income support.
- (2) **An** assessment of the incidence of alternative schemes, in terms of who would be better off and who worse.

The latter step is somewhat technical **and** is described in Volume 2, Appendix 6. In this volume we **will** content ourselves **with** summarising the advantages of the main components **of** the scheme.

The proportional tax rate

The scheme imposes a proportional tax on **all** private income, but we are 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.

However, all minimum income payments are free of tax and are not means tested. The proportional tax is thus the **only** way by which the increase of disposable income is reduced below the increase in private income. It **imposes a** uniform income retention rate on all private income. Yet in combination with the minimum income payments, the proposed scheme achieves a similar result to the present progressive income tax, in that the fraction of income paid in net tax (i.e. tax – minimum income payments) rises as private income rises.

We believe that a proportional tax rate has a number of important advantages:

- (1) **It** provides a uniform income retention rate for all taxpayers except the very wealthy, for whom there may need to be a surtax. The present medley of rates is thus superseded by a system which is fair to all. In particular, people on low private incomes are no longer subjected to the very low income retention rates at present imposed on many pensioners.
- (2) **It** is the simplest way by which a person with a steady private income can be placed on the same footing as one with a fluctuating income. This is because a simple proportional tax takes the same proportion of private income whatever the time pattern of its receipt.

- (3) A simple proportional tax rate offers scope for administrative savings, compared with the present complex rate schedule.⁶
- (4) If it be administratively more convenient, a value-added tax could be substituted for part of the proportional tax. Indeed, should a value-added tax be imposed in lieu of part of the income tax, a scheme of the kind here proposed will be necessary to safeguard the position of people with low private incomes.
- (5) A proportional tax would put an end to the large automatic increments in the proportion of the national income at present diverted to the government by the combination of inflation and the progressive rate schedule. Economists suspect that these diversions contribute to inflation.

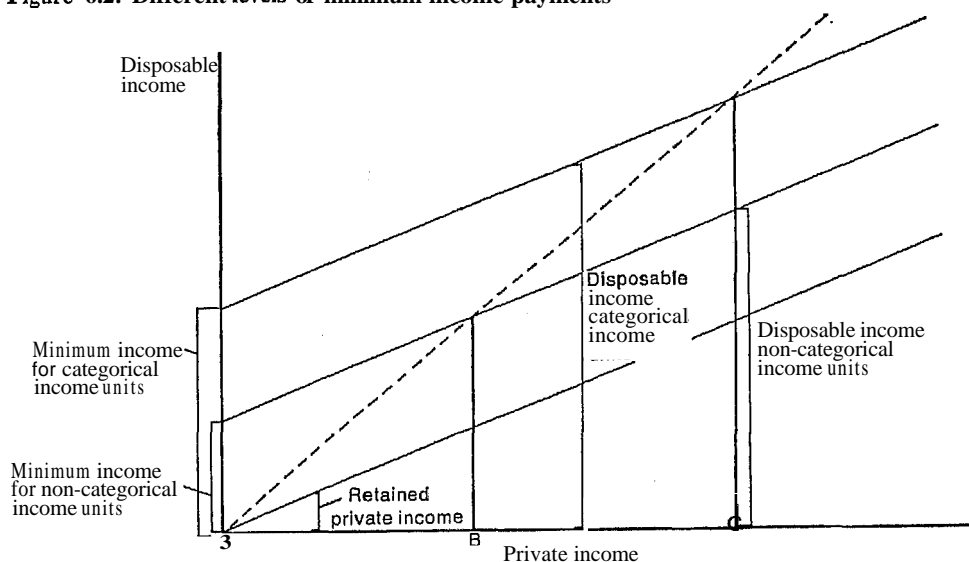
The minimum income payments

The second main element in the scheme would be a series of guaranteed minimum income payments to all citizens, set at a level sufficient to make it very difficult to fall into poverty. These payments would be at two levels:

- (1) a higher level for all income units with a permanent disability hindering their earning of a private income by working (the pension category of our piecemeal reforms); and
- (2) a lower, but still substantial, level for all other income units.

The scheme thus differs from the simple outline shown in Figure 6.1 in that there would be two different levels of minimum income payment. This is illustrated in Figure 6.2.

Figure 6.2: Different levels of minimum income payments



6. The subjection of all private income to tax increases the number of income units paying tax, and to this extent increases the administrative load of the Tax Commissioner. However, there would be a countervailing reduction in the abolition of means testing by the Department of Social Security. Coupled with the other advantages of a simple proportional tax there should still be scope for administrative savings.

The only difference between Figure 6.2 and Figure 6.1 is that categorical income units in Figure 6.2 are better off than non-categorical units at **all** levels of private income. Apart from this, the interpretation of the two figures is exactly the same.

Given the disadvantages of categorisation as outlined in Chapter 4, it would have been simpler **if** we could have proposed a guaranteed income scheme of the type shown in Figure 6.1, with no distinction between categorical and non-categorical income units. However, to provide income support for all, the minimum income payments would necessarily have been set at or above the poverty line. As calculated in Volume 2, Appendix 6, this would have resulted in a proportional tax rate on all private income of about 50 **per** cent, and a similar income retention rate. We believe this would be unacceptable. Again, a scheme without distinction between categorical and non-categorical income units would be a pure income principle scheme, and while we lean towards this principle we still consider that concessions should be made to the disability approach, giving priority in income support for those who are hindered in providing for themselves on the labour market.

The minimum income payments, be they at the higher or lower rate, would be made regardless of the family's private income. They would take the place of current pensions (both with and without means test) and would also substitute for child endowment payments. The scheme thus provides for pensions without means test. However, the effect of the proportional tax rate is such that this can be done without diverting a large flow of resources towards people with high private incomes who happen to fall within the pension categories. The abolition of the means test is thus achieved without lavishing benefits on the well-to-do, as happens at the moment when means tests are withdrawn.

For the taxpayer with a private income greater than OB in Figure 6.2 (or OC if his income unit is within a pension category) the minimum income payments are less than his loss of private income from taxation. The payments can be regarded as a refund of tax on the first portion of his income — the portion at present taxed at a zero or low marginal rate, but which would become taxable at the standard rate with the introduction of a proportional levy on all private income.

While the minimum income payments would have this character as a tax refund for many people, there would still be advantages in paying them separately, rather than offsetting them against tax due. The reasons are:

- (1) Offsetting is difficult when a man has two jobs, or is continually changing jobs, or is in and out of the workforce. (While he is out of the workforce a direct payment to him would have to be arranged in any case.)
- (2) If the minimum income be paid by cheque to all families, it is possible to direct it to particular family members. Thus a payment can go to the wife in continuation of existing child endowment; payments can be made to those with private incomes in mitigation of tax, and payments may even be considered to the older children in their own right.
- (3) Given that the Department of Social Security already makes payments to a high proportion of the population (what with child endowment, as well as pensions and benefits) the increased payment load should not be impossible.

At the same time, the load on employers in calculating and deducting PAYE is lightened.

- (4) The proposed method of payment emphasises the fact that people with low private incomes and millionaires are all part of the same system — all receiving the minimum income payment and all returning a proportion of their private incomes.

On the other hand, a disadvantage of the system is that it achieves these improvements as the result of a substantial rise in both taxation and refunds. If people look at either of these large increases separately they may take fright. We therefore emphasise that it is the net result that matters — the final disposable income, rather than the individual amounts of the proportional tax and the minimum income.

Introducing the minimal and preferred proposals

The main variables within the scheme which can be altered in accordance with government policy are:

- (1) The income retention rate.
- (2) The relative levels of guarantee for different sizes of income unit.
- (3) The level of the minimum income guarantee for categorical income units.
- (4) The level of the guarantee for non-categorical units.
- (5) The amount of revenue from the proportional tax to be returned to the people by way of guaranteed income payments, as against the amount to be applied to the other purposes of government.

Given the number, categorical status and composition of income units, and the private income they receive, any four of these variables determine the fifth. By specifying values for the last four entities (the levels of guarantee payments) and applying data from the August 1973 Survey of Incomes to estimate the first (the income retention rate), we have worked out two versions of the scheme, which we call our minimal proposal and our preferred proposal.

The specification of the minimal proposal is:

- (1) Income retention rate = 65 per cent (proportional tax rate of 35 per cent).
- (2) Relative guarantees in line with relative poverty Lines, save for a slight extra payment to pensioner couples to avoid making them worse off.
- (3) Guarantees for categorical income units at the poverty line.
- (4) Guarantees for non-categorical units at half the poverty line.
- (5) A contribution from income tax to the purposes of government, other than social security, equal to the net contribution (i.e. total revenue less income support expenditure) in 1972-73.

The preferred proposal provides:

- (1) Income retention rate = 60 per cent (proportional tax rate of 40 per cent).
- (2) Relative guarantees as for the poverty line, apart from a slight preference for

- pensioner couples (as before) and also some extra weight for non-categorical large families.
- (3) Guarantees for categorical income units at 106 per cent of the poverty line.
 - (4) Guarantees for non-categorical units at 62 per cent of the poverty line, rising to 65 per cent for a four-child family, thence by degrees to 71 per cent of the at-home poverty line for a seven-child family.⁷
 - (5) A contribution from income tax to general government purposes as in the minimal scheme.

Tables 6.1 to 6.5 show the examples which compare these two proposals with the existing system. They show the money value of disposable income under our proposals, and also the percentage relationship of disposable income under the proposals to present disposable income. The proposals and examples are realistic; they show the effects on disposable income had the guaranteed income scheme been operating in 1973 — always provided that differences in incentives between the scheme and the present system had not led to large differences in such variables as private income earned and income unit composition.

Table 6.1: Disposable income of single adult not eligible for pension or benefit (poverty line = \$33.40 a week (at work))

<i>Private income</i>	(A) <i>Present system</i>	(B) <i>Minimal proposal</i>	(C) <i>Preferred proposal</i>	(B) <i>Minimal proposal</i>	(C) <i>Preferred proposal</i>
<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>as % of (A)</i>	<i>as % of (A)</i>
0	0	13.50	16.70	—	—
20	20	26.50	28.70	132	143
40	37	39.50	40.70	107	110
60	54	52.50	52.70	97	98
100	85	78.50	76.70	92	90
200	151	143.50	136.70	95	91

Table 6.2: Disposable income of married couple, one earning, two children, no pension or benefit (poverty line = \$62.70 a week)

<i>Private income</i>	(A) <i>Present system</i>	(B) <i>Minimal proposal</i>	(C) <i>Preferred proposal</i>	(B) <i>Minimal proposal</i>	(C) <i>Preferred proposal</i>
<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>as % of (A)</i>	<i>as % of (A)</i>
0	2	28.20	35	—	—
20	22	41.20	47	n.a.	n.a.
40	42	54.20	59	129	141
60	59	67.20	71	114	120
80	76	80.20	83	106	109
100	92	93.20	95	101	103
140	122	119.20	119	98	98
200	163	158.20	155	97	95
400	269	248.20	243	92	90

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

7. We depart here from strict poverty line relativities to provide higher minimum income payments to large families. This follows the precedent of present child endowment payments, which increase per child as family size increases. Of all non-categorical families, large families are most susceptible to poverty, and this move improves their position. A mild skewing of relativities such as that here proposed can be managed without much affecting the position of other people. Any more considerable skewness would begin to worsen the position of small families and single people appreciably.

Table 6.3: Disposable income of married couple, one working, four children, no pension or benefit (poverty line = \$80.70 a week)

<i>Private income</i>	<i>(A) Present system</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>
<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>as % of (A)</i>	<i>as % of (A)</i>
0	6	37.20	48.60	n.a.	n.a.
20	26	50.20	60.60	n.a.	n.a.
40	46	63.20	72.60	n.a.	n.a.
60	64	76.20	84.60	119	132
80	82	89.20	96.60	109	118
100	99	102.20	108.60	103	110
140	131	128.20	132.60	98	101
200	173	167.20	168.60	97	97
400	284	257.20	256.60	91	90

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

Table 6.4: Disposable income of single person eligible for age pension with means test (poverty line = \$27.00 a week at home, \$33.40 working)

<i>Private income</i>	<i>(A) Present system</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>
<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>as % of (A)</i>	<i>as % of (A)</i>
0	22	27	28.60	133	136
20	42	40	40.60	95	97
40	50	53	52.60	106	105
60	56	66	64.60	118	115
100	85	92	88.60	108	104
200	156	157	148.60	101	95

Table 6.5: Disposable income of widow eligible for pension with two children (poverty line = \$45.60 a week at home, \$51.90 working)

<i>Private income</i>	<i>(A) Present system</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>	<i>(B) Minimal proposal</i>	<i>(C) Preferred proposal</i>
<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>\$/week</i>	<i>as % of (A)</i>	<i>as % of (A)</i>
0	38	45.60	48.30	120	127
20	58	58.60	60.30	101	104
40	73	71.60	72.30	98	99
60	80	84.60	84.30	106	105
80	87	97.60	96.30	112	111
100	93	110.60	108.30	119	116
140	120	136.60	132.30	114	119
200	160	175.60	178.30	110	111
400	265	265.60	256.30	100	97

Note: (1) Pensioners with low private income would be eligible, according to circumstances, for supplementary assistance and education allowances.

(2) See Volume 2, Appendix 6, for a more complete set of tables.

(3) All amounts are in August 1973 dollars. The effect of inflation since has been:

(i) In real terms, disposable income for a given private income under the present system has diminished. (Effect of progressive tax rates constant in money terms.)

(ii) Guarantee payments under our proposals will have risen. (Inflation adjustment of poverty line.)

Sources: Present system: Figures from the Australian Treasury. The average position is shown; particular taxpayers would differ according to deductions.

Proposed scheme: Calculations by the Commission.

Extra examples are given in Volume 2, Appendix 6, along with the assumptions involved in deriving both the proposals and the examples.

Guaranteed income scheme

(Examples of rates had the schemes been implemented in August 1973)

These examples show that the great majority of people on low private incomes would have been better off under the guaranteed income scheme, irrespective of its preferred or minimal variants. The only low income or disability group made worse off by the scheme would be pensioners who are at the moment earning near their maximum allowance of free income. In accordance with the logic of the scheme, the free income allowance would disappear. However, nobody in this position would have his disposable income reduced by more than 10 per cent even under the minimal scheme.

The difference between the two proposals is that the preferred variant is rather more generous to people on low private incomes. As a corollary, the income retention rate is lower, and the proposal is harder on those with high private incomes. However, only in a few instances do reductions in disposable income exceed 10 per cent. If the scheme were financed from the increase in national income (as proposed in Chapter 2) very few people need experience a fall in disposable income through its implementation, though some would find their disposable incomes rising more slowly than before. This statement applies to both proposals, though the minimal variant could be introduced more quickly.

Special arrangements for particular groups

So far we have described a simple guaranteed income scheme, and made a quick assessment of two proposals within the scheme. Before comparing the minimal and preferred proposals in greater detail and providing a full assessment of the scheme, we must elaborate on the description. There are certain groups to which the scheme in its bare simplicity could not be applied, and for whom special arrangements would be required.

- (1) *Those with high incomes.* Adoption of the scheme would result in the richest taxpayers being better off than under the existing system. This could, however, be avoided by imposing a surtax on those with the highest incomes. To retain the advantages of the single income retention rate for the great majority of taxpayers, this surtax should apply to no more than a small proportion of the population. If it were imposed on the top 5 per cent of income units, families with over \$240 a week⁸ would pay surtax. Such an impost would raise a little extra revenue, though not enough to finance any increase in the guaranteed minimum income. There simply are not enough rich people for even total expropriation of their incomes to go very far when spread round those whose income is below average.⁹
- (2) *Married couples, both working.* Such are the present tax privileges of married couples who both work (they are taxed as separate income units) that the

8. August 1973.

9. We do not go into detail here as the proposed surtax is essentially a matter of taxation policy. In actual practice it could take a form different from that here proposed. We include it here on the assumption that governments would not wish to reduce the highest marginal rate of income tax from the present 66% to the proportional 35% or 40%. We have assumed, for the minimal scheme, a surtax of 25% on all incomes over \$240 a week per income unit, and for the preferred scheme a surtax of 20% on the same base. In both cases this brings the highest marginal rate of income tax to 60%.

proposed system would worsen the position of many of them considerably. Accordingly, it would seem appropriate to allow some extra relief to married couples where both go to work. This could take the form of allowing them to retain the whole of 20 per cent of the work income of whichever partner receives the lower amount in wages and salaries.¹⁰ Allowing for this relief, only the two worker families with the highest incomes would have their disposable income cut by more than 10 per cent as compared with the present,

- (3) *Students*. The scheme provides an opportunity to amalgamate the present educational allowances with the general social security system. Students would be eligible for their share of the minimum income guarantee payable to their family. In addition, it might be desirable to add extra payments for some students, at least for those parts of the year when they are actually studying. These could take the form of additional income-tested payments to students who personally — or whose families — had low private incomes. The income test on these extra payments would involve tapering them away at (say) twenty cents reduction for each extra dollar of private income. Since private income would also be reduced by the proportional tax, this would result in an income retention rate of 45 per cent (minimal scheme) or 40 per cent (preferred scheme).
- (4) *Beneficiaries*. While the proposed scheme provides a full poverty line guarantee for those with permanent disabilities, and provides a half guarantee for all others, what is to be the position of the temporarily sick or unemployed — the people who, in our piecemeal reforms, we propose should be eligible for benefit rather than pension? Should they receive a high minimum income payment like pensioners, or should they be left at the non-categorical level? Here the same constraints apply as in the piecemeal reforms: namely, that where disability is temporary (sickness, unemployment) it is undesirable that beneficiaries should be placed in a better position than the full-time worker. The only solution, therefore, is the granting of a benefit to the sick, the unemployed and others temporarily unable to remain in the workforce, to bring them up from their regular minimum income payment to the pension rate so long as their private income remains negligible. This payment would resemble present benefit payments in that it would be withdrawn at a zero income retention rate as private income rose.¹¹ If payment continued for any length of time consideration would be given to transferring the beneficiary to the full categorical guarantee.
- (5) *Part-rate pensioners*. While for simplicity we propose a scheme in which there would be only two rates of guarantee — a higher payment for pensioners and

10. That is, working wives (or husbands, where they are earning less than their wives) would be allowed to deduct 20% of their earned income before taxation. This is equivalent to allowing an income retention 72% (minimal scheme) or 68% (preferred scheme) on the work income of working wives.

It may seem more in line with our general proposals to allow a tax credit to working wives. However, it would be very difficult to define a 'working wife'—would part-time work make her eligible?—and in any case this concession is introduced quite blatantly to reduce the difference between the proposed scheme and the present system.

11. If the general proportional tax rate were $x\%$, the benefit would be reduced by $1 - x\%$ for each increase in private income. The income retention rate would then be $1 - (x + 1 - x) = 0$.

a sub-poverty-line minimum income payment for other people — there is no reason of principle why intermediate rates should not be introduced for such groups as the partially incapacitated.¹²

- (6) *The self-employed.* Where a person is self-employed, it is hard to separate the income of his family from the income of his business. Therefore, to achieve equity, tax and social security rules have to treat the self-employed rather differently from the rest of the population. For example, a definition of income related to cash flow would perhaps be appropriate for farmers.¹³ However, apart from this suggestion, we have not been able to explore the problems of the self-employed very far, and suggest that the departments concerned give these matters high priority.
- (7) *Pensioners receiving additional payments.* So long as pension rates are close to the poverty line (as they are in both our minimal and preferred proposals) we believe that additional payments should continue to pensioners with unavoidable, significant special costs of living. This is both because the pensioner with high costs is by definition relatively worse off than his fellows, and because some kinds of additional payment are so large relative to the basic rate (e.g. supplementary assistance to renters, recommended at \$8, compared to a recommended single pension of \$27 in the minimal proposal, and \$28.60 in the preferred proposal) that it will be very difficult to absorb them by rises in the universal payment. We therefore expect additional payments to continue indefinitely.

This raises a difficulty. In view of the proportional tax on all private income, there is no longer a free income allowance in which taper can be applied to additional payments. However, the high income retention rate proposed (65 or 60 per cent) gives room to superimpose an income test for supplementary assistance payments, tapering them away at (say) twenty cents reduction for each extra dollar of private income — as for student assistance. Care would be necessary to ensure that no two payments were tapering away at the same time,¹⁴ but provided this was observed income retention rates would not fall below 40 per cent.

These may seem a large number of complications to the original simple scheme. They can, however, be introduced without affecting the general income retention rate of 60 per cent in the preferred scheme, or 65 per cent in the minimal scheme.

AN ASSESSMENT OF THE GUARANTEED INCOME SCHEME

The scheme and the aims of reform

Having thus described the scheme, we are in a position to assess how completely it meets the aims of reform set out at the beginning of this chapter.

12. See Chapter 17. See also Volume 2, Appendix 5, for income units where the wife has a disability.

13. D. P. Vincent, A. S. Watson, and L. M. Barton, 'Poverty among Farmers in Three Districts of Victoria' (Commission Research Report, Financial Aspects of Rural Poverty, AGPS, Canberra, 1975), p.80.

14. The Department of Social Security should confer with State and local governments applying means tests to ensure that policy is coherent.

- (1) *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 the citizens and the government?* Yes, it does; all citizens would receive minimum income payments, and all except those with no private income would pay income tax.
- (2) *Does it reduce the emphasis on special categories in the determination of entitlements and obligations?* Yes, by comparison with the present system, for though favoured categories remain, the difference in treatment between those who are favoured and those who are not is reduced. However, some troublesome incentives remain. Families eligible for pension receive minimum income payments greater than those available to non-categorical families. There is still quite a strong incentive to be declared eligible for pension, though not as strong an incentive as exists in the present system. One of our reasons for preferring the 60 per cent income retention rate proposal is that it narrows this gap compared with the minimal proposal.
- (3) *Does the scheme provide a logical sequence of income retention rates?* Yes, it does for nearly all citizens. In this it contrasts strongly with the present system, and also with the present system as subjected to piecemeal reform. Instead of the wildly fluctuating income retention rates of the present system, we have a steady 60 or 65 per cent. This applies both to those on low incomes (in place of current rates varying from 100 per cent to negative, with the accent towards the latter) and to those on middle incomes. People on high incomes would pay a surtax to bring their income retention rates to somewhat like present levels, and at the other end of the income scale the families receiving additional payments would also have retention rates somewhat lower than the standard rate, though generally not below 40 per cent. The only exception to this generally mild picture is the zero income retention rate imposed on temporary benefits. However, this can hardly be avoided so long as unemployment and sickness are retained as favoured categories.

Despite this zero income retention rate the minimal proposal does not quite achieve the objective of ensuring that a man is always better off working full time than he is on unemployment benefit. Under the existing system a man with a family of a non-working wife and four or more children may have a higher disposable income on unemployment benefit than earning the minimum wage. Under the minimal version of the guaranteed income scheme this would still be so, but under the preferred proposal this incentive towards unemployment would disappear, and the minimum wage earner would be better off than the beneficiary at almost all levels of private income. This is a second reason for preferring the 60 per cent income retention rate proposal.

- (4) *Does the scheme favour neither those whose private income fluctuates nor those whose private income is steady?* Yes, and this is one major reason for keeping to the proportional tax rate as much as possible, despite accusations that it would be 'inflexible' (i.e. cannot be varied to accommodate the special interests of particular vocal groups). Again the exception is the temporarily disadvantaged — for it would still be possible for the man who is on and off benefit to end up with a higher disposable income than he who has a steady

but low private income. Even in this case, however, the difference is reduced.

- (5) *Does the proposal lighten the administrative load?* Here we are not in a position to give an unequivocal answer. The best that can be said is that the scheme gives the opportunity for administrative simplification, and also for an increase in the automaticity of payments. Though people would still have to claim their entitlement to the full categorical guarantees, the general minimum income would be paid to all citizens, and would not require any special application procedure. This would reduce take-up problems.
- (6) *Does the scheme provide such minimum income levels that Australians would not find themselves in poverty?* It would be too much to claim that nobody could be poor in Australia after the introduction of the scheme. For one thing, adjustments of entitlement may continue to take time. Again, cheques may occasionally fail to arrive, both because their recipients have changed their address and through breakdowns at the administrative end. However, continuation of the emergency grant scheme should cover most of these contingencies.

Apart from these cases, however, the scheme may leave in poverty people without private income who are not eligible for full pension or benefit payments and who would so be entitled to the general minimum income and no more. However, the categories are defined so generously that no person in need is likely to be left out. Those receiving the half-poverty-line guarantee with no private income are likely to be such people as the sister-housekeeper who, though technically a separate income unit, is in fact being kept by her brother.

The scheme brings most large families out of poverty, but there are considerable differences of generosity between the minimal and preferred proposals. The former leaves a worrying group of large families in poverty; the latter provides much more generous guarantees. At the present minimum wage rates (and worse should the minimum wage decline compared to average weekly earnings) the minimal proposal would bring three-child families with one earner on the minimum wage to a point just above the poverty line, with the situation worsening as the number of children rose. This is shown in Table 6.6.

Table 6.6: Disposable income of a married man on minimum wage of \$60 (gross) \$/week (August 1973)

No. of children	Works poverty line	August 1973 position	Interim Recommend.	Minimal ^(a) proposal	Preferred ^(b) proposal
1	54	57	58	63	65½
2	63	59	59½	67	71
3	72	61½	63½	72	76½
4	81	64½	70½	76	84½
5	89	67	78	80	91½
6	98	70	86	85	98½
7	106½	73	96	89	105½

(a) 65 per cent income retention rate, 50 per cent of poverty line guarantee.

(b) 60 per cent income retention rate, 62 per cent of poverty line guarantee rising to 65 per cent for the four-child family, thence by degrees to 71 per cent of at-home poverty line for the seven-child family.

Source: August 1973 calculations by the Australian Treasury; plus our calculations.

Inspection of the table makes plain the greater generosity of the preferred proposal, which brings out of poverty all but the largest of families. The preferred proposal thus provides income support so that Australians would find it very difficult to **fall** into poverty, while the minimal proposal does nearly as well, but leaves a number of large families at risk.

Comparing the minimal and preferred proposals

In assessing the scheme as a whole, we have noted that the minimal proposal has one major advantage over the preferred proposal: it provides a higher income retention rate; a lower tax rate. As against this, it has a number of disadvantages:

- (1) It leaves a wider gap between the income support available to categorical as against non-categorical income units, and thus puts greater stress on the definition of categories.
- (2) Because of the wider gap, it will more frequently happen that a man may be better off on unemployment benefit than working at the minimum wage.
- (3) The minimal proposal fails to guarantee all large families against poverty.
- (4) To these it may be added that the minimal proposal provides no more than a poverty-line minimum income payment to people in the pension categories. While this is an improvement on the existing system, it is no better than our interim recommendations. And yet throughout this Report we have emphasised that the poverty line is austere. A scheme which brings pensioners and beneficiaries up to the poverty line **and** no more, and which ensures that most, but not **all**, workers' families are clear of poverty, is clearly minimal in its generosity towards poor people.

Another reason for wishing to provide a higher level of payments to pensioners is the widespread demand for additional payments to meet particular costs. In our opinion such payments are a useful part of the social security system, but to be effective they must be reserved for a small minority of specially disadvantaged people. Their chief temptation is that of generalisation — of paying means-tested supplements to a high proportion of the pensionable population, by which means administrative complexities can quickly multiply and income retention rates fall to very low, even negative, levels. We therefore believe that widespread claims for additional payments should be met by increases in the basic pension rate rather than by special allowances. Part of the trouble with the minimal proposal is that its provision of no more than a poverty line income for pensioners fails to answer the present widespread claim for different forms of housing assistance — to meet rents, to cover the costs of buying a house, to pay the rates. It is desirable that these claims be met as far as possible by raising basic pension rates above the poverty line.

These four objections to the minimal proposal have three implications:

- (1) The objection that it is insufficiently generous towards pensioners implies that minimum income payments to people in pension categories should be raised.
- (2) The objection that it is insufficiently generous towards large families implies that the minimum income payments to the general population should be raised — or at least the minimum income payments to large families.

- (3) The objection that it still puts too much stress on categorisation implies that the gap between the categorical minimum income payment and the general payment should be reduced. By improving the position of the low wage earner as against the beneficiary, this narrowing of the gap would also help to ensure that a man was always better off working, whatever his size of family.

The objections to the minimal proposal can thus be met by a version of the minimum income scheme such as our preferred proposal, with higher minimum income payments for all, though with a larger increase for the general population than for categorical income units. Such higher payments have but one consequence: the tax rate must be higher, the income retention rate less. A redistributive proposal more generous to those with low private incomes must eat more heavily into the disposable incomes of the well-to-do.

Various attempts might be made to escape from this consequence, while still meeting the objections to the minimal proposal. They all involve giving up one aspect or other of the simple minimum income/proportional tax scheme, and so abandoning all its formidable advantages. For example, one superficially attractive alternative is the provision of extra payments to people with low private incomes. If these payments were subject to a means test over and above the general tax rate, they could be instituted without raising the general rate very much. However, such a change would forfeit the equity with which the proportional rate treats fluctuating incomes; it would reimpose very low income retention rates on the poor, and probably could not be organised without a process of application and assessment — of clerical labour and incomplete take-up. In other words, this proposal would mean a return to the more objectionable aspects of the present system. It would therefore be far better to remain within the minimum income/proportional tax scheme, and accept the consequence that greater generosity towards those on low private incomes entails a lower income retention rate for all.

In specifying our preferred proposal we have thus allowed higher minimum income payments to all income units. The increase for the general population (from 50 per cent of the poverty line to 62 per cent) is larger than for pensioners (100 per cent to 106 per cent). These increases are balanced by a reduction in the income retention rate from 65 per cent to 60 per cent. The proposal benefits people with low private incomes, particularly wage earners, at the expense of those with higher private incomes, particularly single individuals and married couples both working, both of whom benefit relatively little from the increase in minimum income payments.

The most obvious objection to this preferred proposal is that the rise in the minimum income payment for pensioners is only 6 per cent, even though it can be calculated that if the entire extra revenue of the increased proportional tax were diverted to pensioners, completely ignoring the claims of the other people, their minimum income payments could be increased to 48 per cent over the poverty line. Why, then, treat them with such meanness?

Apart from the general case against stressing categorisation, the answer lies in the situation of the low wage worker. Unless payments to the general population are increased, low-wage large families will remain under the poverty line, and their breadwinners will find themselves better off on benefit than working. Yet if

payments to the general population are increased, the funds available for payments to pensioners are reduced. With an income retention rate of 60 per cent, the choice is roughly as follows:

If the minimum income payments to the general population be at this percentage of the poverty line	50	58	60	62	64
the minimum income payments for pensioners will consequently be at this percentage of the poverty line	148	120	112	106	100

At all ratios of payment more generous to pensioners than 62/106 large families on low wages are likely to be poor, and to be better **off** if their father is unemployed **and** on benefit than they would be if he worked.

The only other way by which payments to pensioners might be increased while still providing minimum incomes sufficient to keep low wage earners from poverty would involve breaking the connection recently forged between rates of pension and rates of benefit. **If** the benefit rate were reduced there would be less need to worry about beneficiaries getting more than low wage earners, so perhaps the minimum income payments to the general population could also be reduced and funds released for pension payments. We are against this move, since it would imply that the beneficiary is less needy and deserving than the pensioner. **At** the same time a general minimum income 62 per cent of the poverty line cannot be pared without returning some families to poverty.

It is thus no easy matter to increase the minimum incomes of pensioners while maintaining relativities between them and other people. However, any income support scheme must be a compromise between rival claims — a middle course between conflicting incentives. We believe that this preferred proposal, with its 60 per cent income retention rate and its 62/106 minimum income payments, best balances the many interests at stake.

Conclusion

These three chapters on income support have presented a complex argument with three main stages:

- (1) **An** income support system in Australia should be based on the income principle, with subsidiary use of categorisation according to disability. Any other basis tends to result in unnecessarily high tax rates, or disastrously low basic pension payments, or both.
- (2) **A** number of steps should be taken in the near future to improve the existing system and clear the way for more fundamental reform. These include the raising of pension and benefit rates to the poverty line and their regular updating thereafter, a simplification of the system of favoured categories, and moves for the integration of presently separate means tests.
- (3) However, in the medium-range future the present system should be replaced by a guaranteed income scheme, in which payments to pensioners (at a high rate) and payments to all other income units (at a lower rate) would be balanced by a proportional tax on all private income.

We believe that these reforms are the best way of reconciling the conflicting ends of policy on income support. They provide minimum incomes so that Australians will not in future fall so easily into poverty, and yet preserve the incentive to earn a private income, in that all who do so are better off. They recognise that disabilities which hinder the earning of a private income warrant favoured treatment, but also provide support for people without disabilities in this sense, and who may still easily become poor — particularly the large family. Again, support is provided in a way which does not discredit those who claim it, and so take-up rates should be high. Further, the proposals should be administratively workable, and limit the area of administrative discretion, so that income support may be seen as a right rather than a favour.

Though we consider that these ends may best be reconciled within a guaranteed income scheme there is still wide scope for policy decisions. Among the various specifications of the policy variables of the scheme, we would prefer a proposal with minimum income payments for pensioners of 106 per cent of the poverty line, and 62 per cent of the line for others, balanced by a 60 per cent income retention rate. However, a version of the scheme less generous than this (e.g. our 'minimal' proposal) would still be an improvement on the existing system.

Above all, it is urgent to reduce the number of Australians in poverty. Insofar as this can be done by income support, we believe that our scheme provides the way.

SUMMARY

Even as improved by the measures proposed in Chapter 5 the present income support system will continue to suffer from divided administration, and from the prominence of disability categories which create a sharp division between those entitled to full pension and those not entitled to income support. We propose that it be replaced by a guaranteed income scheme which would:

- (1) Emphasise that the right to a minimum income and the obligation to pay tax are but two sides of the same coin.
- (2) Reduce the emphasis placed on special categories.
- (3) Assure **all** citizens of a logical sequence of income retention rates as private income rises.
- (4) Favour neither those whose private income is steady nor those whose income fluctuates.
- (5) Lighten the administrative burden of social security and taxation, and at the same time improve take-up rates.
- (6) Provide minimum income levels such that Australians do not find themselves in poverty.

RECOMMENDATIONS

- (1) A guaranteed income plan with a proportional tax on private income and minimum income payments to all income units be introduced as quickly as possible (p. 85).

- (2) The merits be seriously considered of introducing a scheme with minimum income payments to pensioners of more than the poverty line, and to other income units of 60-63 per cent of the line (p. 86).
- (3) Relevant Australian Government departments immediately begin research directed towards early implementation of a guaranteed income scheme; this would include the Australian Bureau of Statistics, which should produce appropriate income survey material to assist in the **task**.