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A Guaranteed Income Scheme: Implications for Women

by Meredith Edwards

Introduction

Increasing interest has been shown in Australia recently in rationalising present social security payments. Given that an overall goal of welfare policy is to ‘tackle the problem of poverty’ and given the limited resources with which to meet this goal, the main problem is how to direct limited resources to those most in need of assistance and how to do it with respect for human dignity.

Many proposals are presently before the government to improve the income security of Australians. Those under scrutiny here are the recommendations for a guaranteed income put forward by the Commission of Inquiry into Poverty under the Chairmanship of Professor R. Henderson, and those put forward by the Priorities Review Staff (PRS)². The fundamental elements of the Henderson and PRS proposals are given below as a prelude to analysing the implications of a guaranteed minimum income scheme for Australian women,

Basic Elements in the Guaranteed Income Proposals

I will discuss, in turn, the tax unit, the level of guaranteed income and the tax rates which have been proposed in the Commission of Inquiry into Poverty (Henderson) and PRS Reports,

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(a) *Tax Unit*

Before a guaranteed level of income can be determined, the income unit to which a guaranteed income scheme will apply needs to be specified. The income unit adopted by both the Henderson and PRS Reports is the nuclear family.³ Other members of a household, for instance aged relatives, would be treated as separate income units. The status of full-time tertiary students is unclear. The Henderson Report treats a tertiary student as a separate income unit from the family when defining poverty levels but appears to include the student in the family unit under a guaranteed income scheme. However, both the Henderson and PRS proposals intend to broaden the present individual unit of tax. The implications of this will be assessed later,

(b) *Minimum Income Payments*

Under the Henderson proposals all tax units would be paid a fixed benefit in cash regardless of the amount of income received by the unit. The PRS proposals would guarantee a minimum income, not in the form of a cash payment, but as a tax credit to be deducted from tax liability. The ultimate effect is the same. Under both proposals income units without any form of private income, would receive a cash payment which would be the guaranteed income for that unit. For income units with private income, the cash payment would be deducted from the tax the unit was liable to pay on its income. Thus, if the income unit's tax had been calculated at \$2,000 and the cash payment applicable to the income unit were \$1,500, \$500 would be paid in tax.

If, on the other hand, the tax liability of the unit were \$1,000 and the cash payment were \$1,500, the unit would actually receive a payment of \$500 from the government,

Both proposals have a two-tiered minimum income scheme. A higher payment would be made to all income units with a permanent disability hindering their ability to earn income (the aged, single parents, invalids.) A lower amount would apply to tax units not eligible for pensions or benefits. The minimum payment would vary with family size with an additional flat payment made for each additional child.

(c) *Tax Rates*

Both the Henderson and PRS Reports have opted for a proportional tax on incomes. This means that compared to the existing progressive tax structure where the tax rate applicable to incomes rises as income rises, under the proposed schemes the tax rate is constant as income (excluding the minimum income payment) rises. But the combined effect of the proportional tax and the tax credit is effectively to retain the present progressive nature of our tax system.

It is to be noted that both Reports recommended a surtax on high incomes. Further, both reports attempt to deal with the disadvantages that families with two working parents might suffer as a result of their

suggestions. The Henderson Report suggested that a fixed percentage (20%) of the working wife's earnings should not be taxed, while the PRS Report suggests a system of tax relief for working wives whereby their incomes are taxed at a rate of 10% below that applicable to other taxpayers.

It was noted in both Reports that these 'concessions' could be applied to whichever income is lower, not necessarily that of the wife.

Essentially income earners will find that the proportion of tax taken out of their incomes will rise as their income rises as a result of the combined effect of a guaranteed minimum income scheme and a proportional tax structure, but that on an additional dollar of income earned, the rate of tax will be constant.

Proposals Assessed

The guaranteed income proposals presently before the government leave a lot to be desired for Australian women. It will be shown below that the tax unit is discriminatory, the concessions for working wives are quite inadequate and the economic independence of women is ignored. Modifications to the Henderson and PRS proposals are also suggested below.

(a) *The Tax Unit — Why the Family?*

One of the common arguments in favour of the family as the unit of taxation is that the level of family income is a better indication of ability to pay tax than is the individual unit. Married couples, it is argued, reap significant economies in living together compared with two individuals living separately. Expenditures on housing and basic household items — consumer durables, heating expenses, etc. — are consumed jointly. Much of the expenditure of one spouse is enjoyed by the other.

Thus if the income of a married couple is \$10,000 with each spouse earning \$5,000 and two individuals living separately each earning \$5,000 it is argued that the married couple should pay more tax.

There is, however, a major shortcoming in the above approach. While it may well be admitted that a married couple achieve economies in living together compared to single persons living separately, these are not significantly different from those achieved by any group of individuals living together.

The tax unit adopted in both the Henderson and PRS Reports is highly discriminatory: elderly dependants (if not juveniles) in a household are treated as separate income units but married women (and men) are denied the same privilege. The individuality of aged relatives has been respected but the individuality of a wife (and husband) as a person in her own right has been ignored.

It is frequently argued that welfare and economic considerations favour

the broadening of the present tax unit. If the individual unit of tax were retained under a guaranteed income scheme, wives without independent income would then be entitled to a minimum income payment. This would result in an unacceptable high cost scheme with cash payments going to family units not in poverty. Alternatively, given a constant amount of tax revenue, there would be less revenue available for redistribution to those on lower incomes, particularly single parent families and aged persons living alone. This traditional line of argument completely ignores the transfers (or lack of) that occur within families. Many women could in fact be classified as poverty stricken because of insufficient pooling of family resources.

However, if we accept the above argument for the moment, it does not follow that the family is the appropriate alternative today. Since it is obviously unjust and without real logic to include wives together with husbands in a tax unit but to exclude others who share equally in the expenditures of that unit, it would appear more equitable to base an **income** unit for guaranteed income purposes on individuals who share major expenditures (such as housing).

One alternative to the Family unit which requires further exploration is to grant minimum income payments to every adult⁵ and to grant an additional payment for those individuals solely responsible for meeting housing costs. In this way, two single individuals living separately would receive a higher tax credit or minimum income guarantee than the combined credit of a married couple or of two single individuals living together.

The administrative difficulties of the above proposal cannot be underestimated. However, to adopt the family as the appropriate unit *because* it is easier than the household to handle administratively and to define equitably is an expedient policy that could do much harm to individuals of that unit.

(b) 'Concessions' or 'Penalties' for Working Wives?

A guaranteed income scheme is designed, among other things, to redistribute income vertically towards families in poverty. The introduction of a guaranteed income scheme could lead many wives in low income households ceasing to work⁶. This is highly desirable in the case of working mothers who have been *forced* to work to support an otherwise inadequate family income. A higher family income thus gives a wife greater freedom to choose whether or not to work.

Equally important, however, is that the switch from an individual to a family based tax structure could unduly penalise women who may *wish* to work. In many countries — Sweden and the U.K. for example — the aggregation of family income has been so harsh on the participation of women in the work-force that compulsory aggregation of earned income has been abandoned.

In Australia, under the Henderson and PRS proposals, the same situation is evident for married women with children despite the working wife 'concessions' these proposals incorporate. Let us take one example. Assume that a married couple with two children can choose between the husband alone working outside the home and earning \$6,000 p.a. or the husband and wife both working and the wife earning \$4,000 p.a. Let us also assume by way of illustration, that the PRS proposals were adopted: the minimum income payment to the family would approximate \$2,450 p.a. and a 43% tax rate would be applicable on the husband's earnings and 33% on the earnings of the wife⁷. With these figures in mind, and the husband alone working, the tax burden would be \$130 p.a. ($(\$6,000 \times 43\%) - \$2,450$). If, however, the wife decided to work the tax burden of the family would rise from \$130 to \$1,450 ($(\$4,000 \times 33\%) + \130). The increased tax payments would be equal to one third of the income that the wife earns. In contrast, under the present as well as the preceding tax structure in Australia the decision by the wife to work would have meant that the extra tax payments of the family would have been less than 20% of her income⁸.

Such a substantial increase in tax payment would be a significant influence in a wife's decision to work. It needs to be pointed out that a wife who works at home usually makes a significant contribution to the real income of the family through the provision of housekeeping and childcare services. When a wife decides to work outside the home and earns cash income, a substantial portion of that income may need to be used to purchase services previously performed by her in the home. A working mother has to earn a substantial salary after tax if her working outside the home is to be financially more profitable than the value of her services in the home⁹. With childcare costs of \$1,500 p.a. for each pre-school aged child in Australia at present, the disincentive effects of the PRS and Henderson proposals hardly need further elaboration.

In any redistribution of income from two income families, it is essential that ability to pay tax is measured after allowance has been made for essential costs in earning income. Further, since the aim is to redistribute income to low income earners, much can be said for a flat tax rebate for working wives rather than a rebate proportional to income (as in the PRS proposal) or an exemption of a proportion of a working wife's income from tax (as in the Henderson proposal). A flat credit of around \$1,000 to primarily allow for child care costs would be of greater benefit to lower income families than the Henderson and PRS proposals.

(c) *Minimum Income Payments — for Women?*

Attention has already been drawn to the inadequate definition of poverty used in the Reports under review. Both Reports completely ignore the plight of women who may be poor because they lack financial independence. Their own poverty could force them to put up with

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intolerable marital strains in order to retain shelter for themselves and **their** children.

No evidence is available to indicate the extent to which family resources are pooled. Without this vital input it is extremely difficult to discuss poverty in Australia meaningfully, let alone take adequate action to alleviate it¹⁰.

However, the implementation of a guaranteed income scheme does provide an excellent opportunity to reduce the financial dependence of **many** women regardless of whether they be classified as poor. It is suggested here that if a broader unit of tax were contemplated, the minimum income payment to the unit should go to the individual who **earns no** income.

In the case of a typical family household, the wife would receive the payment and the income earning husband would pay tax at the specified rate without any deductions. This scheme would therefore involve no extra **cost** to the government. It needs to be pointed out that the payment is in **no** way a payment for household and childcare functions performed in the home. This issue is the subject of ongoing and heated debate". The payment is simply in recognition of the possible hardship that is caused by financial dependence of one adult on another¹².

The economic independence of married women who work is at stake **once** a change from the individual unit of tax is contemplated. Any broadening of the unit, therefore, should attempt to retain, as far as possible, the present advantages of being taxed as an individual.

The Henderson and PRS proposals which incorporate a proportional tax on income do permit the right to be taxed as an individual provided reconsideration is given to the appropriate form of the broadened tax unit as outlined above. The minimum income payment for a two parent working family could be split up and paid separately to each parent. On **equity** grounds, two working individuals living together should be treated **in** exactly the same way. Where there are children, the extra payment **could** be sent to the spouse with the lower income. Each individual could **still** file separate income tax returns. In our example above, instead of the husband receiving a payment of \$2,450, the husband and wife would each receive \$1,225 which would be deducted from their tax liability ($(\$6,000 \times 43\%) - (\$1,225)$ for the husband and $(\$4,000 \times 33\%) - \$1,225$ for the wife. No change in the total tax burden for the family would occur.

Summary

It is argued here that the tax unit suggested by the Henderson and PRS proposals discriminates against women. It ignores their right to be treated **as** individuals and, in the context of a guaranteed income scheme, could **leave** many of them who work in the home in poverty. While there may be

a case for broadening the tax unit, the family is not the only alternative. Equity would require all persons sharing expenditures in a household to be treated as a tax unit.

Neither the Henderson nor PRS proposals adequately allow for the expenses associated with the entry to women in the workforce. Under their proposals, there would be significant disincentive for women to work which is increasingly at odds with changing social attitudes.

Finally, modifications to the Australian proposals for a guaranteed income scheme opens the way for achieving some financial independence for women at home and at the same time retaining some of the advantages for working women of being taxed as individuals.

Footnotes

1. Priorities Review Staff, *Possibilities for Social Welfare in Australia*, A.G.P.S., Canberra, July, 1975, p. 5.
2. Commission of Inquiry into Poverty, *Poverty in Australia*, First Main Report. Vol. I, A.G.P.S., Canberra 1975, especially Ch. 6 and Priorities Review Staff Report, op. cit.
3. More precisely, the income unit is defined as: 'an adult income unit head, spouse (if head married) and dependent children for whom the head or spouse is responsible. A dependent child is defined as a person not married and either less than 15, or 15-20 and still engaged in full-time secondary schooling. An adult is a person 21 and over, or a person 15-20 who is at present married and/or responsible for a dependent child (i.e. an 18 year old single mother and child is an adult income unit); or an independent juvenile, who is a person 15-20 not engaged in full-time schooling, not at present married and not responsible for a dependent child. However, a full-time tertiary student is always defined as an independent juvenile, even though the person may be partly or wholly dependent on his parents'. Commission of Inquiry into Poverty, *ibid.*, p. 12.
4. 'Students would be eligible for their share of the minimum income guarantee payable to their family,' *ibid.*, p. 79. It is not clear whether students here refer to tertiary students as well as other students.
5. Defined as above in 3.
6. See results on work incentives of a guaranteed income experiment in the United States, *New Jersey Graduated Work Incentive Experiment*, Office of Economic Opportunity, Washington DC, May 1971.
7. The PRS Report based its tax credits on the poverty lines determined by the Poverty Inquiry. Their tax credits for people presently ineligible for a pension or benefit were determined at 55% of the poverty line. In the December quarter 1974, this amounted to a guaranteed weekly income of \$47 for a married couple with two children. This approximates a tax credit of \$2,400 p.a. See Priorities Review Staff, op. cit., p. 29.
8. Under the 1976, tax structure, the total tax burden with a working wife would be \$942. With a dependent wife \$242 would be paid in tax. The \$700 difference represents 18% of the wife's earnings in our example. The comparison is not strictly valid, given that the PRS suggestions relate to the financial year 1974-75. But the difference in effects of the present and proposed tax structures remain.
9. For an elaboration on the argument, see Report on the Royal Commission on the Status of Woman in Canada, 1970, p. 292.
10. The Brotherhood of St. Laurence in Australia has recently surveyed the low income families in Melbourne in an attempt to obtain more information on the pooling of family resources. The results were not available at the time of writing. Qualitative evidence suggests little knowledge by wives of their husband's income and little knowledge by husbands of the weekly amount required to purchase essential items. See, Commission of Inquiry into Poverty, *Resources for Poor Families: An Experimental Income Supplement Scheme*, A.G.P.S., Canberra, 1974, p. 55.
11. See, for instance, J. Mahoney and J. Barnaby, 'Assistance to Families with Children', *Social Security Quarterly*, Winter 1973, Meredith Edwards, 'Financial Assistance to Mothers: A Critical Appraisal', *Australian Quarterly*, March, 1975.
12. In attempting to alleviate the hardship caused by financial dependence, it is possible that any cash payment given to a non-working wife could lead husbands to reduce the proportion of his income allocated to her. The wife could, therefore, end up financially more disadvantaged. The difficulty lies in an inability to predict behavioural patterns which may point to the need for experimenting with the proposal first and monitoring the results.