

# **9 History of Income Guarantees**

## A history of income guarantees

In previous chapters the possibility of introducing universal income guarantees have been considered in relation to existing welfare provision. This chapter will describe the various forms of income guarantee then survey the history of the struggle to introduce such income guarantees in Britain, the United States and Australia. Some of the arguments in favour of each form of universal payment will then be considered.

### The structure of generalised income support

There are three main types of generalised payments, *Guaranteed Minimum Income*, *Negative Income Tax*, and *Basic Income*.

*Guaranteed Minimum Income (GMI)*: includes a number of sub categories

- *GMI* guaranteed minimum income, for instance the GMI proposed by the Henderson Poverty Inquiry (1975) would have set minimum *levels* of income for Australians.
- *GAI* guaranteed adequate income, as proposed by the Queensland Greens Party and suggested for Canada (Lerner, Clark & Needham (1999). Though at times GMI and GAI are used interchangeably, the main proponents of GAI argue that a GAI has to be paid at a sufficient level to allow people to live in dignity,
- a *residual minimum welfare payment* available to all permanent residents who do not qualify for any other income support benefit, as in France (Minimum Integration Income 1988). By the mid 1970s and until the late 1980s the Australian Special Benefit looked as if it had the capacity to become such a benefit. But excessive targeting has since demolished that capacity.

*Negative Income Tax (NIT)* - some times called *Tax Credits*

*Basic Income*:

- Partial Basic Income,
- Full Basic income.

A full UBI - set at or above the *social minimum* level of income - is a benefit that replaces all other forms of income support, whereas a partial UBI is a universal benefit that coexists with other benefits, acting as the foundation for a simplified income support superstructure (Rankin 1997 p. 56).

Both the GMI and NIT are designed to ensure that every citizen (and usually permanent resident) receives a minimum income. In Lady Rhys-Williams' (1965) words "to provide a 'floor' below which he (or she) cannot fall, but ought not to have a ceiling beyond which he (or she) can rise (p. 163)". The major difference between a NIT and a GMI is that the NIT is paid as a tax transfer in inverse proportion to a person's other income; whereas a GMI is a generalised form of income support paid as a welfare benefit in inverse proportion to one's other income.

A Basic Income is paid to each permanent residents at a flat rate irrespective of assets and means. It is a truly universal payment. It has no social obligations attaching to it. This is why it is sometime termed a 'citizens income' program.

All these generalised forms of income support differ, in theory, from categorical payments in one important regard. They make no presumption about social eligibility requirements. Yet when income guarantee policies are formulated residues from categorical policies are frequently present. When Henderson (1975) put forward his GMI he wanted a two tiered structure, using the family as the unit of income, which distinguished between those in receipt of benefits or pensions and those who did not then qualify. Australian Age Pensions are a means and asset tested payment made to all over a specified age (a gender differential is being phased out) who meet residential requirements and as such provide a form of guaranteed minimum income for older Australians. Whereas disability and unemployment income support forms have a huge discretionary component built into their structure. Robert Goodin (1988) has argued that "what distinguishes a welfare state from a poor law state" "is that agents of a welfare state must have no discretionary power over those resources that the state allocates for the relief of people in distress (p. 7)". NIT and GMI approach Goodin's idealised form of 'welfare state' but only an unconditional Basic Income using the individual as the unit of income has the capacity *to be* such a 'welfare state'.

### **A history of the Basic Income.**

A survey of the literature concerning guaranteed minimum income and negative tax schemes in America and Britain is provided because as will be seen, many of the ideas about income guarantees which have been suggested in Australia had origins in either Britain or America. The aim is to provide a description of the general thrust of income maintenance proposals and implemented programs in those countries which adopted something approaching a generalised income guarantee.

The Basic Income debate in continental Europe has taken a number of diverse paths (Van Parijs 1992[a]) which are described on the BIEN web site. Lerner, Clark & Needham (1999) provide a picture of the income guarantee debate in Canada. New Zealand's flirtation with Basic Income is described on the NZUBI web site. None of these countries will be described here.

After briefly outlining the early antecedents of Basic Income the focus will move to the 1960s and 1970s because this was the period, in Britain, the United States and Australia, during which the introduction of generalised income guarantees were seriously considered by governments. Since then, the emergence of economic fundamentalism as a hegemonic force has diminished the possibility of introducing generalised income guarantees in these three countries. Though the fight is not over yet, as will be seen in the next chapter.

### **British experience**

In Britain an important part of the welfare debate since the Second World War has centred around the question of income support. This post-war search for more equitable ways of providing for poor people's maintenance has many antecedents. One was the Speenhamland system of outdoor relief commenced in Berkshire in 1795 and widely copied in other parts of England (Polanyi 1945 ch 7). The system provided a fixed scale of relief in line with the size of the labourer's family and the price of wheat. Labourers whose wages were insufficient to support

them and their families were assisted up to a set level. Unfortunately the Speenhamland system provided some employers with the opportunity to reduce wages thereby letting the cost of maintaining their labour force fall on the parish as a whole; as well in many places the set level of assistance had a tendency to become 'the rate' of payment for farm labourers (Polanyi 1945 ch 7). The scheme was abolished by the 1834 Poor Law which replaced this form of assistance with indoor relief in the work houses.

In the period from 1834 until the Second World War it is difficult to establish a precise chronology of the development of ideas about guarantees of minimum income because of the different possible interpretations which might be applied to some of the earlier statements. For instance, in England at the turn of the century the Webbs had spoken of the need to provide a "national minimum of civilised life"(cited in Bruce 1968 p.26). In 1906 Winston Churchill had called for "a line below which we not allow persons to live and labour"(cited in Bruce 1968 ch 1 footnote 11). Several decades before that John Ruskin (1872) had argued that "the first duty of the state is to see that every child born therein shall be well housed, clothed, fed and educated till it attain the age of discretion" (letter xiii).

Whilst each of these statements contains a thrust in keeping with the idea of the introduction of a guaranteed minimum income, the other works of these writers lead to the conclusion that the guarantees of which they spoke would have been substantially circumscribed.

From 1918 until 1922 Dennis Milner, Mabel Milner & Bernard Pickard campaigned for the introduction of a Basic Income (Van Trier 1995 Part 1). Eighty years ago Dennis Milner was the first British person to articulate a fully elaborated (book length) Basic Income proposal. He wanted to ensure the inadequacies of the British poor law system were over come, to enhance national productivity, and to provide a more equitable base from which workers might negotiate wages (Milner 1920, Van Trier 1995 Part 1). The Basic Income European Network (BIEN web site, Van Parijs 1992[b]) also gives credit for the first elaborated proposal for a Basic Income to Dennis Milner (1920). Walter Van Trier's (1995) historical analysis describes the Milners and Pickard's writings and their subsequent 'disappearance (until recently) from the income support debate'. In the final chapter of this book there will be a further consideration of the Milners and Pickard. This chapter will concentrate upon those British writers whose works had some influence on the British Government during the 1970s.

In 1943 Lady Rhys-Williams suggested introducing an income guarantee for all families in order to do away with the complexities of the then existing system of financial assistance to 'the needy'. Rhys-Williams(1953) saw her system as resulting in the merger of the social insurance and taxation systems: the payment would have been in the form of a flat rate welfare payment available to nearly everybody. She would, however, have excluded from payment the able-bodied unemployed who refused to work (Rhys-Williams 1953 pp. 121-123). Lady Rhys-Williams held a number of senior positions in the British Liberal Party and was Vice President of the Economic Research Council. The Rhys-Williams proposals contained most of the major suggestions put forward in Henderson's plan for a guaranteed income in Australia. She had suggested a PAYE proportional tax plus surcharge to fund the proposal.

Early in the Second World War, a Cabinet Minister, William Beveridge, task of undertook the first comprehensive review of the British social insurance system. In his report he set out the means by which the government could ensure that the minimum needed assistance was provided to everyone (Timmins 1995). His plan was to remove the more oppressive aspect of poor law relief and to broaden the social insurance system.

The direction which Britain took was not that mapped out for it by Rhys-Williams but more that of Beveridge even though his Labour Party critics, such as Bevan, saw "security in full employment and good wage standards rather than in any 'social ambulance scheme'" (cited in Bruce 1968 p. 309). In post-war Britain the Labour Party set out, in line with the Beveridge Report, to create the 'welfare state' with its old age pensions, its unemployment and sickness insurance, national health, supplementary benefit payments, local council rent subsidies and other residual programs. It was to be another twenty years before Britain again seriously reviewed income guarantees for working people.

The issue of negative taxation and tax credits began to reappear on the political agenda in Britain in the late 1960s (Lees 1967, Atkinson 1969 ch 9 & 10). In 1968 the Labour Party's taxing of Family Allowances (claw-back) caused significant income losses for the moderately paid and this created the climate in which issues such as assistance to low and moderately paid workers became a point of dispute. In 1970 the Institute of Economic Affairs proposed what it termed 'reverse income tax' which had a number of negative tax features: it guaranteed all households a minimum income at the Supplementary Benefit level; but it provided no further payments above that level, the decision to apply "a 100% tax rate was dictated by a desire to alleviate the problem of the poverty trap" (Atkinson 1975 p.231). This scheme would avoid a poverty trap below the level of supplementary benefit but create one at the level of supplementary benefit.

The Conservative Party on coming to power in 1970 introduced the Family Income Supplement as a way to help low paid working class families, where the breadwinner worked at least 30 hours per week. From the inauguration of the program the issue of take-up plagued its designers. The Secretary of State for Social Services declared an intention to reach at least 85 per cent of eligible families despite estimates by others that only between half and two-thirds of eligible families would apply - the estimate of 50 per cent turned out to be the most accurate (Rein 1973 p.74-76). "American public policy seems almost obsessed with the problem of how to reduce the size of the welfare caseload, British policy, by contrast, is preoccupied with how to reach the universe of eligible recipients (Rein 1973 p.74)".

In October 1972, the British Conservative Government published a Green Paper on a proposed tax credit system, designed to replace Family Allowance and the Family Income Supplement, and to integrate the personal taxation and social security systems. This Green Paper suggested an income supplement for single workers (British Government 1972) for the first time since the Speenhamland scheme of 1795.

The Tax Credit proposed had three rates of credit: for individuals; for married couples or single parents with one or more children in care; and an amount for each child irrespective of age. The Tax Credit was not designed to guarantee every family would have sufficient to support its members. The Green Paper maintained "To do that would put the cost of a practicable scheme

far beyond what is supportable (British Government 1972 p.iii)". In line with the prevailing Conservative ideology, the Green Paper went on to argue that 'needs based' residual welfare was far more efficient in targeting special cases of need than were general programs. A Select Committee generally approved of the ideas outlined in the Green Paper and concluded that the Tax Credit would be an improvement on the Family Income Supplement because of a more generous withdrawal rate and claimed there would be considerable benefits to be gained from the streamlining of welfare and more particularly taxation (House of Commons 1973 pp. 6-7).

The American researcher Hecllo (1974) saw in the proposal a new direction when he commented that "The new Conservative government implemented its earlier vague appeals for greater selectivity in social benefits with an unexpectedly sweeping version of the negative income tax (p. 323)." Another of the early commentators on this proposal and the Select Committee's endorsement of it was Howard Glennerster (1973) who felt the Tax Credit Proposal was not a major departure from existing practice which had been evolving in this direction for at least two decades and that it "has more to do with the need for economic and administrative rationalisation than it has with re-distribution, and this is entirely consistent with the stance of a Conservative government (pp. 429 & 434)."

Atkinson (1975 pp. 230-240), Professor of Economics at Essex University, and a vigorous critic of many aspects of the tax credit scheme, was aware of the issues of low take-up and high marginal tax rates present in the existing and proposed income maintenance programs. The Tax Credit proposal lapsed with the defeat of the Conservative Government in the British election of 1974. Neither the Labour Government which replaced it nor the next Conservative Government of Margaret Thatcher, despite her avowal of Friedmanite economics, introduced a progressive generalised income guarantee. Blair's Third Way has become obsessed with 'dutiless rights' (Green 1996, Selbourne 1994) and recipient's obligation (Mead 1997) and for the moment the likelihood of a non-presumptuous income guarantee (Goodin 1992) being introduced seems to be receding.

### **The United States of America experience**

In 1949 Senator Taft of Ohio proposed that the Federal Government maintain a minimum subsistence guaranteeing "a minimum standard of decent living and all children a fair opportunity to get a start in life (cited in Moynihan 1973 p.62)." He was expressing in the Senate what others in the administration were thinking. Daniel Moynihan (1973 p.50) gives the credit for coming up with the idea of negative income tax to Milton Friedman and fellow economist George Stigler during the 1940s. The concept, Moynihan says, was a development on a 1943 idea of Friedman's to create a more equitable tax structure for those whose incomes fluctuated from year to year. Friedman suggested that the poor pay Treasury taxes in the years their incomes reached taxable levels and that the Treasury pay them in those years when their income was below tax limits (see also Stein 1971 ch. 3). Christopher Green (1967 ch. 4) accepts that Stigler and Friedman were early proponents of negative income tax and adds the names of William Vickery and Walter Heller as being involved in discussing the idea of a negative income tax - he credits Stigler with the first publication of the idea in 1946.

A related idea was put forward in 1947 by Paul and Percival Goodman in their book *Communitas*. They proposed a system of compulsory subsistence whereby people would be expected to work one year in every four or five in basic subsistence industries. In return they would be guaranteed subsistence. The subsistence industries would be controlled or owned by the government. A not dissimilar proposal was elaborated upon by Gorz in 1985.

Galbraith, writing in 1958, commented "An affluent society, that is both compassionate and rational, would, no doubt, secure to all who needed it the minimum income essential for decency and comfort (p. 255)." In 1956 Friedman had given lectures on negative income tax at Wabash College, but it was not until 1962 with the publication of *Capitalism and Freedom* that he put these ideas in print. The previous year Rolph and Break in their book *Public Finance* had tentatively suggested the introduction of a negative tax system. Although Lady Rhys-Williams' *Something to Look Forward to* was published in England nearly twenty years before *Capitalism and Freedom* and her *Taxation and Incentive* was published in New York close to a decade earlier, Friedman makes no reference to her work. Perhaps he was content to dismiss her writings as he had done with some early British social insurance initiatives, describing them as being similar to Bismarck's and illustrating "the affinity between aristocracy and socialism (Friedman & Friedman 1980 p. 99)". Or perhaps it was because he was at pains to distinguish between negative income tax and grants paid in the social welfare mould.

During the Nixon era Friedman's views were to dominate. Friedman saw in the application of the negative income tax an opportunity to pay the poor and *only* the poor, to dismantle much of the welfare infrastructure which sustained service delivery (and has well paid bureaucrats and social science professionals), to rationalise the tax and social security systems, and - he hoped - also to abolish farm subsidies and transfers to the middle class such as those provided through the education and housing systems (Friedman & Friedman 1980 ch.4, Friedman 1968, Cohen & Friedman 1972 pp.21-52, 99-114). Lampman (1965), another early advocate whose views were influential in the Johnson administration, argued that the negative tax is both a supplement and a complement to the existing welfare programs, although he believed it would and should reduce public assistance. Negative income tax represents for Friedman a "means to attack existing poverty with a minimum of income redistribution (Green 1967 p. 61)." Lampman and Friedman made much more of alleged work disincentive effects than did contemporary writers like Theobald.

In 1963 Robert Theobald in his book *Free Men and Free Markets* set out to break the nexus between jobs and income and to lay the foundation for an economic system which guaranteed every member of the society an adequate income, irrespective of his or her individual contribution. These ideas were followed up in a collection of articles which he edited five years later, under the title *Committed Spending: A Route to Economic Security*. Theobald envisaged the greatest challenge facing developed nations being the cybernetic revolution which he considered would eventually displace the majority of the workforce. He argued, therefore, that the United States should be gearing itself up for full unemployment rather than attempting to return to full employment (Theobald 1968, p.191). In *Free Men and Free Markets* he argued that the owner of capital and the person holding a conventional job should receive 10 per cent more money than if that person did not have investments or hold a job (p.196), but in *Committed*

*Spending* he resiled from that position proposing that "there should be no work incentive feature at all (p.191)".

Writing in the same book, Margaret Mead (1968), whilst holding that there should be some monetary reward for working, saw in the concept of a guaranteed income a tremendous force towards unifying an entire society if this was paid as a form of income support (pp.103&115). Mead concluded her article with the thought that any work disincentives created by an income guarantee would be more than compensated for by other social advantages (p. 116). Mead did not however assume that the introduction of an income guarantee would be easy. She devoted considerable space to a discussion of the manner in which American men's status has been tied to their capacity to provide adequately for themselves, their wife, and their children. She warned that "The dependency of the wife has been such a significant element in our idea of the family that it will be difficult to substitute a status for women based on (their) choice rather than economic advantage (to men) (p.111)."

There were a number of other important contributions made to the guaranteed income debate in this period. In 1965 Tobin put forward a concept of an income guarantee which had elements of negative taxation and social welfare and which embodied the idea of tax credits. He was to join with others and expand on these ideas two years later. This latter paper dealt extensively with the issue of fluctuating income and (like the prior paper) was concerned with meshing the tax rates in both their positive and negative forms. Some of the issues which he dealt with still need to be considered seriously in the United States but have less relevance in Australia and Britain with their widespread PAYE tax systems.

In late 1965 the Office of Economic Opportunity submitted to President Johnson its first comprehensive attempt to address the issue of poverty. This report argued for a negative income tax for all the poor (Williams 1975 p 427). The Johnson administration preoccupied by the Vietnam War and violence in the ghettos never took up the suggestion. Williams, who worked in the administration at the time, makes the point in reviewing this period that negative income tax fitted neither Lyndon Johnson's nor Richard Nixon's style. The different approaches were adopted by these two Presidents because income guarantees during the Nixon presidency had "a strong advocate like Moynihan, negative tax in the Johnson administration had a strong critic - Wilbur Cohen (Secretary of Health Education and Welfare) (Williams 1975 p.432)". In an earlier work Williams (1972) had argued that apart from Johnson's preoccupation with the Vietnam War it was the popular misapprehension that providing welfare assistance to able-bodied men would cause them to leave work, which prevented the introduction of income guarantees (p.1). He qualified these remarks later in the same article (pp. 6-7).

The issue of the 'dependency' of women most worried the Senate Committee on Finance who were vitally concerned to know "if the incentives built into the negative tax would stem the rising Aid for Dependent Children outlays by getting women to work more (Williams 1972 p. 41)". This continues to be a dominant theme in United State welfare debates (Mink 1998, Leonard 1997 pp. 19-20).

In 1968 the economists John Kenneth Galbraith, Paul Samuelson, Robert Lampman, Harold Watts and James Tobin, joined by some 1,200 colleagues, called on Congress "to adopt this year



a national system of income guarantees and supplements" (cited in Moynihan 1973 p. 126). President Nixon saw in the negative tax suggestion the possibility of reforming the welfare system in ways compatible with his general political orientation: workfare not welfare. Moynihan was to declare that the Nixon Family Assistance Plan "was different. It was singularly an American idea, and of recent origin. Its passage would set a standard of social policy against which the rest of the world might measure itself (Moynihan 1973 p. 5)". This was not a view shared by all who reviewed the plan. One critic argued that the proposal should not be confused with a negative income tax or other income guarantee. It is a reform of public assistance that has borrowed the work incentive mechanism of NIT and coupled it with the kinds of work compulsion that are part of the poor law tradition (Stein 1971 p.121).

The Family Assistance Plan proposed by the Nixon Administration in 1969 (and its modified form HR1) was the first attempt by an American Federal Government to provide a guaranteed income for all families with children who satisfied the work test requirements. It would have assisted families of the working poor and would have moved some considerable distance towards introducing uniform federal rates of public assistance. But it was hardly a uniquely American idea nor could it have been seen as a social advance in global terms. Moynihan's other claim for it that it was 'of recent origin' is not sustainable. As early as the latter part of the 1940s proposals had been put forward to make American public assistance comprehensive, non-categorical and with federal standard rates of payment (Green 1967 p171).

The Family Assistance Plan aimed to decrease incentives to form female headed families; however, the "FAP was hardly likely to reduce dependency... it would have raised sharply implicit tax rates on earnings for the already dependent, while simultaneously raising the benefit levels available to many of those families (Hausman 1974 p. 412)." The introduction of the Nixon Family Assistance Plan would have changed the demographic composition of those who obtained welfare transfers. Existing welfare programs assisted primarily female headed families, half of whom were Black, less than one third lived in the south, and only one fifth had any work experience: Family Assistance Plan beneficiaries, on the other hand, would be predominantly white living in the south and two-thirds of them would have some employment (Bowler 1974 p.36).

It is now history that the Family Assistance Plan in its modified HR1 form received approval in the House of Representatives, but failed to attract a majority in the Senate. Moynihan (1973) blamed the National Welfare Rights Organisation and the liberal congressmen associated with it for the defeat of the Nixon Family Assistance Plan. This view was not endorsed by other commentators (Bowler 1974, Williams 1975, Burke & Burke 1974) who pointed to issues such as inadequacies in the drafting, changes in some White House staff, the work incentive/dependency debate and the demise of the McGovern guaranteed income proposals, as all having an effect.

In the United States, two men - the administrator Wilbur Cohen, and the academic, Milton Friedman, had considerable influence on the outcome of attempts to introduce an income guarantee. In 1972 the American Enterprise Institute for Public Policy Research published a debate between Wilbur Cohen who by then was no longer Secretary of Health Education and

Welfare, but retained a clear trust in the usefulness of social security and public welfare; and Milton Friedman, whose interest in negative income tax remained undiminished. Cohen began by pointing out that the American social security system was a social insurance system providing differential rewards, emphasising reward for work and productivity: "It was not a plan worked out by the Socialist Party to redistribute income or by the Communist Party to equalise wealth. It was not a program worked out by the Republican Party to save the capitalist system. It was a plan to help the States meet the cost of providing welfare to the aged (Cohen & Friedman 1972 p. 7) ". Cohen argued that any income guarantee program is easily susceptible to political and emotional manipulation and could lead to political pressure to substantially increase its costs yet could in times of budgetary restraint also lead to significant reductions in the guarantee (Cohen & Friedman 1972 p. 12, Green 1967 pp.590 & 602).

In *Capitalism and Freedom* Friedman had expressed concern that a negative income tax would be susceptible to pressures for increases in the rate of income guarantees and/or break even points. Later he revised his position, arguing that negative income tax was less subject to such pressures than were other types of welfare payment because any rise in benefits under a negative income tax would provide, for the informed public, an obvious and easily calculable cost in the positive tax structure (Friedman 1968 p. 219); arguing that a negative tax bureaucracy would not be as inclined as other welfare administrations to have an interest in expansion.

In this 1972 debate, Friedman attacked the social security system because the instalments paid in bore little relationship to the larger amount taken out (in most cases), because of the inequalities between married and unmarried women, and because of the different treatment of those who chose to continue to work after turning 65 compared with those who retired (Cohen & Friedman 1972 pp. 24-25). He was critical of the fact that high income earners generally start paying taxes later and get benefits longer than do lower paid workers (Cohen & Friedman 1972 p.35). His main thrust centred around the point that social security beneficiaries in America are apportioned benefits in a way that bears little or no relationship to need (Cohen & Friedman 1972 pp.36-37). He attacked the public assistance programs for spawning a huge bureaucracy; and for not providing an incentive to work, because of the wide variations in payment between different parts of the country, and because of the multiple diminution of or loss of fringe benefits (the notch problem) as income rose (Cohen & Friedman 1972 pp. 41-45). Friedman's basic complaint was that money allegedly provided for the benefit of the poor is often used to subsidise the better off who, he felt, should be able to look after themselves: he wanted to see welfare programs which assisted the poor and only the poor. Cohen claimed that if welfare programs did not at the same time assist the better off then support for funding would decline (Cohen & Friedman 1972 p. 55).

Milton Friedman's writings on areas outside of negative income tax and some of his ideas concerning income maintenance, place him squarely in the company of the conservatives. His own utterances allow him to be seen as a modern day David Hume on issues such as general economic theory. Friedman has at various times associated himself with several conservative governments: Thatcher, Reagan, and Pinochet. His wages theories and their more general embodiment in his prices and balance of payment concepts place him on the far right of the political spectrum. Yet his thinking concerning negative income tax contains several important contradictions. Many of his criticisms of the existing welfare system are shared by

contemporaries like Michael Harrington (1977), Julian Le Grand (1982), Betty Mandell (1975), Pamela Roby (1974) and other socialists.

Friedman's wish to replace the existing welfare system with a negative income tax is predicated upon a desire to end the proliferation of well paid jobs in the welfare industry; to stop the middle class being a recipient, if not the major beneficiary, of welfare programs; to respect the dignity of poor people and promote their independence; to stop interfering in the domestic relationships of poor people; and to promote greater equity in the provision of benefits to the least affluent. In some of his later writings he has modified his determination to abolish all trace of existing welfare programs: for instance, Friedman (1968) wrote "While the negative income tax is unlikely to be adopted as a substitute for all welfare programs - as I should prefer it - it does seem to me highly likely to be accepted as a substitute for the direct public assistance programs (p. 205)."

Such a position is not incompatible with good economic sense nor humanism, and would not be unattractive to many on the left. A major contradiction exists in Friedman's thinking between his support for an unregulated wages policy with its promise of greater economic benefits for the whole society (which even the poor will enjoy through osmosis) and his condemnation of the target inefficiencies of the existing welfare system. He states "the negative income tax has the great virtue that it would concentrate public funds on supplementing the incomes of the poor - not distribute funds broadside in the hope that some will trickle down to the poor (Friedman 1968 p. 217, *contra* Wagaman 1968 pp.22-23, 28-31, 82-84)." Trickle down economic processes either work or they do not. It makes no sense at all to argue that they work outside of the welfare system but that they fail or are so inefficient that they are inappropriate inside the welfare industry.

But perhaps the clearest contradiction of all in his writings is that which exists between his denigration of minimum wage legislation and his call to make the welfare system serve the poor and only the poor. There is a synthesis of this conflict of ideas. It is supplied by Friedman's desire to cut the amount of funds available to the welfare industry, his objection to minimum wage standards through legislation, his willingness to rely on private charity, his intense concentration on the cost of welfare services and his uncritical support for free market forces which illustrates the essence of his conservatism: all these features highlight his wish to limit the amount of redistribution flowing to the poorest citizens.

These debates raged in the United States three decades ago, some of the language has changed but the past resonates in the ongoing discussions surrounding workfare, Medicare, the Wisconsin welfare cutbacks as deeply as it does in the single motherhood, race, and affirmative action debates. It is as if social policy in the United States is trapped in a time warp.

Governments in Britain have failed to introduce generalised income guarantees. There the debate is bogged down in 'dependency' rhetoric. Attention will now turn to Australia and the 1970s where there also a high point in the income guarantee debate emerged.

## **Australia**

So far this book has dealt with the existing system of income maintenance in Australia, some of its history, structure, methods of distribution and ideological perspectives which have informed welfare practice. The focus here is on the development of income guarantee schemes and demonstrates how these schemes incorporate and reflect elements from the different ideological positions which have already been discussed.

A number of limited income guarantee schemes are already in existence for particular categories of citizens (Perry 1995). Low income families, lone parents and their dependent children, people older than the pension age requirements, blind pensioners, working people with children, orphans, ex-service personnel over the age of 60 years, and people in some other categories, provided they apply, meet residential requirements, and who meet asset and means limits are guaranteed an income. People in receipt of superannuation also have an income guaranteed by corporations. Minimum wage legislation adds to the impression that most Australians are assured some form of regular income. However, there are still many Australians not working who are not guaranteed an income because of their age, length of residence or domestic circumstances. Race no is longer regarded as grounds to refuse applicants benefits.

Since the 1970s more generalised income guarantees have been proposed in Australia. The earliest detailed blueprint for a guaranteed minimum income program was put forward by Professor Henderson (1975 Vol. 1 ch. 6 , Vol. 2 Appendix 6) in the First Main Report of the Poverty Inquiry. Apart from providing all Australians with an income guarantee, the Henderson proposal aimed to link the taxation and social security systems, reduce the emphasis on categories of income maintenance, provide an easily understandable retention rate on earned income, treat those with fluctuating and those with regular incomes equitably and lighten the administrative burden on both the Taxation and Social Security Departments (Henderson 1975 Vol. 1 p.70). The amount of disposable income a family or individual received was to be determined by a simple formula:

"Disposable income = guaranteed minimum + private income x income retention rate (Henderson 1975 Vol. 1 p.70). "

Henderson proposed the population was to be divided between those who qualified for a pension, benefit or similar payment, whom Henderson called the 'categorical' population and a second group who were not able to establish an entitlement for existing benefits, whom he designated as 'non-categorical'. Elsewhere in his report Henderson argued for "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 (Henderson 1975 Vol. 1 pp. 67, 30-32)".

He foreshadowed the possibility of paying lower rates of income guarantees to beneficiaries than to pensioners (Henderson 1975 Vol. 1 p.85) and for establishing an intermediate rate between the 'categorical' rate and the 'non-categorical' rate for those who are partially incapacitated (Henderson 1975 Vol. 1 p.80). He argued that it might be necessary to pay farmers and the self-employed a lower rate than the base 'non-categorical' rate (Henderson 1975 Vol. 1 p.80). In both Henderson options - except for individuals living alone - the guaranteed payment would be made to family units rather than paying a guarantee to each person as an individual although he allowed that "payments may even be considered to the older children in their own right (Henderson 1975 Vol. 1 p.74)".

Henderson recognised that it would be the responsibility of governments to determine variables such as the income retention rate, the level of the guarantee, the number of categories retained and therefore the total amount provided to citizens as an income guarantee (Henderson 1975 Vol. 1 p.75). He suggested two outlines which the government might adopt which he termed the 'minimum' and 'preferred' options. The minimum option included an income retention rate of 65 cents in the dollar (that is a withdrawal rate of 35 per cent), guarantee for 'categorical' income units at the poverty line (with a slight increase for pensioner couples to avoid making them worse off than under the existing system) and guarantees for 'non-categorical' units at half the poverty line. The preferred option had a 60 per cent income retention rate, a guarantee of 106 per cent of the poverty line for 'categorical' income units (plus some additional help for pensioner couples); the guarantee for 'non-categorical' income units would start at 62 per cent of the at-home poverty line and rise to 71 per cent of that line for a seven child family (Henderson 1975 Vol. 1 pp. 75-76). The major differences between the two options related to income retention rates and the generosity of base line payments. Either scheme, had it been implemented, would have ensured that all Australians had an entitlement to minimum levels of income.

The system of progressive taxation would have been abolished and replaced by a proportional tax on all private income. The administration of Social Security income maintenance and Taxation would have been combined within the one body. Henderson considered abolishing all the different categories within the system of income support but decided against it on the grounds that a simple guarantee of income at the poverty line for all would result in a 50 per cent taxation rate which he felt was not politically acceptable (Henderson 1975 Vol. 1 p.74). The Henderson proposals fit in with many aspects of the existing non-contributory social welfare system in Australia. It is necessary to look at these proposals to determine whether they were capable of doing what Henderson claimed for them and were in line with the aims which he set out to achieve through the schemes.

### **Henderson's income proposals: potential difficulties**

In political terms the essential strength of Henderson's income guarantee proposals is that they grew out of and retained the essence of the existing social welfare system. They were in every sense a reform of that system. His suggestions for a guaranteed minimum income would make the income maintenance system more humane, less categorical and more comprehensive. Apart from failing to tackle poverty in a systematic manner, the basic weakness in the proposals was that they did not come to terms with the need to dismantle the existing system and restructure it in a way which would have facilitated the complete integration of the income maintenance and taxation systems.

Henderson wanted to link Social Security and Taxation functions because doing so stresses the unity between incoming and outgoing government expenditure; it would have provided a guaranteed income and a logical basis for income retention rates. The logic of the retention rate was compromised by Henderson because he intended continuing to provide existing fringe benefits to some 'categorical' people (Liffman et al 1976).

Henderson's programs would reduce but not abolish advantages accruing to people with fluctuating incomes as compared with those in stable employment. The scheme would not 'markedly disadvantage' taxpayers compared with present tax arrangements except for married couples, both of whom work. Henderson made special allowance for them (Henderson 1975 Vol. 1 pp 78-79).

The replacing of the progressive tax structure with a proportional income tax would on the face of it appear to advantage the more affluent. He did, however, propose a 5 per cent tax surcharge for incomes over \$240 per week as at August 1973 (Henderson 1975 Vol. 1 p.78). Henderson's arguments in favour of a proportional income tax were based on assumed work disincentive effects and the ease of implementation of the tax system. All the same, his proposals do nothing to come to terms with tax avoidance and evasion techniques by which the affluent in this country currently escape paying anything approaching a fair percentage of their income tax.

Whether the introduction of Henderson's proposals would lighten the administrative load of Social Security and Taxation would depend on a range of considerations such as which supplementary payments, tax concessions, and other special categories would be added to the base scheme. Henderson himself suggested several and it is highly likely that powerful lobby groups would have wanted to have special clauses added so as to advantage their membership.

Dividing the population into 'categorical' and 'non-categorical' groups and providing the 'categorical' group with a guaranteed income equal to or better than the poverty line but only guaranteeing an income of somewhere between 50 and 71 per cent of the poverty line for the 'non-categorical' group would significantly affect the emphasis placed on special categories in determination of entitlements and obligations. Specifically, it would increase the desire of 'non-categorical' people to become classed as 'categorical'. Because it does not guarantee the 'non-categorical' group an income at or above the poverty line it cannot claim to provide income levels such that Australians do not find themselves in poverty.

Henderson's desire to extend the eligibility coverage of existing categories to groups of people not currently included stopped far short of including people whose spouse, or children whose parents inadequately support them. Henderson, whilst recognising that intra-family transfers are sometimes insufficient, offered no alternative. As a result, his proposals presumed that if there is an obligation to support other family members then this will be done, or if it is not done then the inadequately supported family members will move out and set up independent income units thus qualifying for support in their own right. Work dealing with intra-family income transfers would seem to give the lie to both assumptions (Edwards 1984, Asprey 1975, Sainsbury 1996)

The Henderson proposals would have increased the take-up rates compared with the existing Social Security system because of their greater coverage and more general eligibility categories but some people would still not apply (Saunders 1982). But retaining the distinction between those who would have qualified for pensions or benefits and others, plus adopting the family as the unit of income led the Australian historian, William Martin (1982), to point out that "a true GMI scheme does not examine the reasons for income loss, it has no necessary place for a normatively based view of family finance (p.194) ". He questions whether the Inquiry was clear

in its objectives: he feels that the Inquiry concentrated on poverty alleviation rather than addressing the more difficult question of equity in income maintenance policies.

### **Negative Income Tax**

The same year as the Henderson Inquiry, another investigation of income guarantees was conducted by the Priorities Review Staff. Their plan set out to introduce a negative income tax or tax credit scheme (p.29). The Priorities Review Staff proposed a two tiered system - like the Henderson scheme - which treated pensioners and beneficiaries more favourably than those currently ineligible for payments. They made the exception of those who, apart from the means test, would qualify (p.29). Included in the higher tier were the people who experienced severe disability, unemployment, sickness, and older Australians whose income from other sources was greater than existing means tests but less than the proposed cut off point for their income guarantee. Those currently ineligible for benefit or pension, on grounds other than income, would receive a tax credit at a rate of 55 per cent of the poverty line (working) as set by the Poverty Inquiry whereas eligible people would receive a tax credit of 100 per cent of the poverty line (non-working) (pp. 29-30).

The Priorities Review Staff suggested a proportional tax on all income of 43 per cent for prime earners whereas second earners would have a proportional tax of 33 per cent applied to them (p. 30). Increasing levels of surtax of 5 per cent for those over \$17,000 - \$20,000 rising to 25 per cent for those over \$58,000 (p. 34). The unit of payment adopted by the Priorities Review Staff was the family. The Priorities Review Staff considered extending their scheme to incorporate several other programs, apart from Social Security, such as educational, housing, and employment restructuring, within the tax credit scheme (p. 33).

### **Comparing Priorities Review Staff and Henderson proposals**

The main intention of both the Henderson and Priorities Review Staff proposals was to rationalise the existing categorical system of payments, to integrate the income tax and Social Security systems, and to cater for those poor people who had received little or no governmental assistance because their 'needs' did not match the existing eligibility categories. Whilst the Priorities Review Staff accepted that it might be necessary to maintain a number of supplementary welfare programs, to service those who are not adequately assisted by existing programs, their clear desire was to limit or abolish as many supplementary programs as possible. The Poverty Inquiry on the other hand wanted to put in place a guaranteed minimum income and increase services available to the poor.

Like the Poverty Inquiry, the Priorities Review Staff scheme would have provided a logical retention rate for earned income, and reduced but not abolished advantages accruing to people with fluctuating incomes compared with those in stable employment. The positive tax structure suggested was midway between the existing progressive tax arrangements and Henderson's proportional tax suggestion. Like the Henderson Report, the Priorities Review Staff scheme adopted the family as the unit of payment and divided the population into those currently eligible and those not receiving a Social Security or like benefit. The Priorities Review Staff were more

determined than Henderson to do away with many existing income maintenance and service programs.

A number of commentators reflecting upon both the Priorities Review Staff and the Henderson proposals have linked their discussions of these schemes to other proposals such as those raised by the National Superannuation Scheme (Hancock 1976), the National Compensation Scheme (Woodhouse 1974) and the Asprey Inquiry into Taxation (1975).

The diversity of approaches to income maintenance adopted by these various inquiries arose from the fact that they were set up to investigate different terms of reference. A common feature emerges in each of the proposals under discussion: they were all critical of the existing social welfare approach to income maintenance. Henderson and the Priorities Review Staff aimed to restructure the entire welfare relief system by introducing generalised income guarantees. Hancock and Woodhouse attempted to alter only a part of the income maintenance structure, raising questions about meshing, coverage and overall costs.

Both the Woodhouse and Hancock proposals, whilst they considerably extended benefits to people not at the time provided with income maintenance cover, still left gaps in services. They were forms of categorical payments; the Hancock scheme guaranteed an income for the elderly - but this was already done by the Age Pension; the Woodhouse scheme would have rationalised workers' and road accident compensation, sickness benefit and Disability Support Pension programs, but would still have left many of those who did not fit into the existing categorised welfare system without cover. The Woodhouse Report and the majority report of the Hancock committee both extended the inequalities of the employment situation into the post work phase of people's lives. But would have been an advance on the income support system operating a quarter of century later.

Henderson himself rejects the recommendations of both the Woodhouse and Hancock Inquiries on equity grounds, he quotes the words of the Minority Report of the Hancock Inquiry to establish his case: "Benefits payable under the scheme (Hancock) in 1977 would require an estimated 5.1 per cent of Gross Domestic Product. This may be contrasted with the 2.0 per cent required to finance the aged pension system in 1974-75 (Henderson 1977 p.108)".

Only the Henderson or Priorities Review Staff suggestions had the potential to ensure every Australian is guaranteed an income. Neither Henderson's nor the Priorities Review Staff schemes would have resulted in equal distribution or equitable distribution to all - because they were set at such low levels of income guarantee and they persevered with a modified form of categorical payments.

Both proposals go some way towards creating a fair income distribution in this country compared with the existing categorical system of welfare payments. Both the Henderson and Priorities Review Staff suggestions would simplify income maintenance delivery and increase the rate of take-up in Australia. They both envisage amalgamating the positive and negative taxation arrangements within one department. Both attempt to do something for the working poor as well as the workless. However, both proposals have continued to divide the working class into those who can establish eligibility for any of the pre-existing worthy categories and



those who cannot. Neither scheme addressed the problem of intra-family 'dependency' (or alleged 'dependency') in any useful way. So, had either program been implemented, it would not have affected existing patriarchal relationships. The maintenance of the family as the unit of welfare payment and in some forms of taxation continues to reinforce patriarchal arrangements. The adoption of the individual as the unit of payment was rejected by Henderson and the Priorities Review Staff on the grounds of cost. They suggested paying a living alone allowance. Such an allowance would, however, experience most of the difficulties which determinations of who is or is not involved in a 'bona fide domestic relationship' encounter (Edwards 1984).

### **Work, the family and dependency**

It is possible to identify a number of differing ideological positions adopted by supporters and opponents of income guarantees in the struggle to promote or defeat the negative tax in America, the tax credit in Britain, and the guaranteed minimum income in Australia. One of the difficulties in attempting to ascertain prime ideological features motivating particular writers and policy makers involved in the debate on income guarantees in Britain, America and Australia is that opinions are often expressed as a part of a technical point, that is the comment is presented as if it stood alone. For example, the choice of the family as the unit of payment in the Australian guaranteed minimum income proposal put forward by the Poverty Inquiry, and in the Nixon Family Assistance Plan, and again in the British Tax Credit scheme, can be seen as a technical solution or it can be seen as part of a prevailing assumption about acceptable social behaviour.

Another problem encountered in isolating important ideological features, is that ideological elements themselves are often intimately connected with other ideologies. Ideologies which structure the welfare system exist as a package and should be conceived of as a composite, as a conglomeration of ideologies. The ideology of work is firmly connected to views about motherhood and family and each of these is related to ideas about self-help, individualism, and 'dependency'.

The way the debate concerning income guarantees was structured in the United States and to a substantial degree in Britain, made the issue of work incentives of prime concern. The ideology of work is such a powerful one in the United States, Britain and Australia, that changes to the welfare system are assured of a stormy passage, if not defeat if opponents of those changes can present them as a threat to productivity.

Mead (1968), who is only marginally attached to promotion of the work ethic, argued for the introduction of a guaranteed income on the twin grounds of humanity and equity, and rationalised her support for income guarantees on the basis that it would ensure consensus and participation underlining the need of the state to recreate the spirit of community or in Tonnies' words 'Gemeinschaft'. Early in her article she says "The idea that anyone should not receive basic subsistence, food, water, and shelter - so long as there is anything left to divide - is modern savagery. (p.115)".

Theobald (1963, 1968) did not present his call for income guarantees as a direct attack on the work ethic, but rather as a necessary response to the reality that, sooner or later, as computer technology displaces more and more workers, including professionals, there will be little opportunity for many people to work in conventional jobs. Hence the need to allow people to

develop the skills necessary to adjust to a world where there are decreasing employment opportunities. He saw in existing managerial arrangements and workers' responses to them a narrowing of the possibilities of human creativity. The negative tax arguments put by Friedman, Lampman, Stigler and others (including Tobin) aimed to confront the issue of inadequate income in a way which would not interfere with productivity. Their suggestions to change the income maintenance provisions were expressed in ways which were far more compatible with prevailing ideologies than were Theobald's ideas.

The English experience is slightly different. The promoters of the 'reverse income tax' at the Institute of Economic Affairs, because of their decision to use a 100 per cent rate of tax, could be seen to have ignored the entire work incentive debate. They simply attempted to develop equity between the working poor and the workless. Implicit in the design of their suggestion is the belief that any work disincentive which did occur would not substantially affect the economy. The British Conservative Government 1970-74 in both its promotion of Family Income Supplement and Tax Credit was concerned not to interfere with productivity; to promote equity between workers and the workless; to rationalise the tax and welfare systems, and to assist the needy (albeit only the worthy, especially the working, poor).

In the United States, it seemed to matter little whether the Congress was looking at the issue of 'dependency' or that of work disincentives, the first concern was the possibility of less productivity. 'Dependency' in this context is simply the consumer side of productivity, in that the more people 'dependent' the greater the need for increased productivity in order to maintain existing standards.

It is clear from the structure of the welfare debate surrounding the introduction of income guarantees in the United States, that the issue of 'dependency' was interpreted in an extraordinarily narrow manner, informed by male orientated views concerning the family, work, morality, and self-help. Racial stereotypes are not far below the surface in much of the writing concerning negative income taxes. The issue of race gets mixed with 'dependency' in Moynihan's writings, and those of others, as they try to come to terms with the obvious poverty of Black Americans without accepting the racist nature of the capitalist mode of production exemplified in the United States experience (Glazer & Moynihan 1963, see also Leonard 1997 pp.20-22).

The thrust of the ideological bases from which many of the most important writers operated as they strove to gain acceptance for their particular form of income guarantee have been described. There was a concentration upon Milton Friedman because he, more than any other writer of the period, clearly set out the ideological network which informed his suggestions. The Australian Priorities Review Staff's proposal was heavily influenced by Milton Friedman's negative tax ideas. Henderson's concept was heavily influenced by Lady Rhys-Williams' approach.

### **Concluding remarks**

The very limited nature of the generalised income guarantee schemes which have been contemplated by governments in these three countries provides an insight into the difficulties which continue to face advocates of universal Basic Incomes. The essential conservatism inherent in the negative tax suggestions which have been promoted in Britain and America was

compared with more progressive guaranteed minimum income ideas of writers like Theobald. The ideology of work, particularly the concerns about work disincentive, was examined and found to have had an impact on the decision not to proceed with negative tax ideas. The composite nature of ideological packages was alluded to and the connections between the work ethic, family structure, dependency and racism were mentioned in relation to issues such as equity, individualism and human creativity.

General income guarantees are favoured by those on the left of the political spectrum because they are seen to deliver equal benefits to all in equivalent financial need. They can be seen as a step on the way to socialism and full blown equality. They are valued also because they do away with discretion, categorised benefits, residualism, stigma and the ideology of less eligibility.

Those liberals who are in favour of income guarantees tend to argue that the benefits, at least in the negative tax form, stem from the fact that they deliver payments to those who need them in an efficient manner, that they limit the provision of assistance to low income earners and the workless and do away with the need for the plethora of supplementary welfare programs which have arisen within the welfare system since the Second World War. Those who are committed to monetarism see in negative tax the deregulation of the relations of distribution and argue that such processes are compatible with their general desire for a deregulated economy.

Implicit in this analysis is the suggestion that a major overhaul is long overdue. A tinkering with the edges of the social welfare and taxation systems will not address the issues of poverty alleviation and income security. A restructuring of both the positive and negative tax structures allows the possibility of a positive tax system which ensures that the more affluent pay a fair percentage of their income in tax and equally importantly abolishes the gross inequities within the welfare system. A reconstituted income maintenance system would not necessarily be dependent upon enforcing patriarchal 'dependency' or existing race and class relationships. It could become a system which attempts to supply benefits equally to rural and urban people irrespective of age or gender. It could be a system which ensures that each has a minimum income irrespective of ability or inability to labour. But to do this necessitates the introduction of an income guarantee which completely integrates the tax and welfare systems. The one form of generalised income guarantee which could efficiently accomplish these goals is the Basic Income which shall be discussed in the next chapter.

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