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NATIONAL SUPPORT INCOME and work for all. By Allan McDonald

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1. INTRODUCTION

Today we have:-

- In the industrialised countries of the world – over 30 million unemployed – or "two Australians" out of work.

- In the E.E.C. countries – over 20 million unemployed – or "one and a half Australians" out of work.
- And in Australia - officially over half a million unemployed – or "one Tasmania" out of work.
Including the "hidden unemployed", there are over one million unemployed, or "two Tasmanians" out of work.

We now have more people in Australia classified as unemployed than in the great depression of the 1930's. And according to Bureau of Statistics estimates, this number would more than double if we include the "hidden unemployed" i.e. those who want work but are not available to start immediately. Over 20% of our young people in the labour force (age 15-19) are unemployed.

We are not, however, in a state of economic depression. We are enjoying economic growth and prosperity, as affirmed by Government, and as supported by growth in GDP per Capita.

How, then, can a solution to the problem of unemployed be achieved with reliance only on economic growth? What rate of growth is required? Can we sustain such a rate of growth?

There is support for the view that a growth rate of over 5% per annum for a long period of time is necessary to achieve any significant reduction in the level of unemployment. This is a rate of growth which historically we have never been able to sustain over long periods of time. And it must not be achieved in a period of rapid technological change, and increasing industrialisation of developing nations.

Economic growth may create work, but will it be for people or machines? And the rapidly increasing industrial capacity of some of Australia's neighbours – so-called developing countries – will limit the ability of manufacturing industry to return to its previous importance as an employer of people.

The answer must surely be that a solution to the problem of unemployment through economic growth alone will not be achieved. Full employment in the traditional sense will not return.

To echo a statement in an ILO report of 1982 – "...a return to full employment as it is conventionally understood in the industrialised world may not be possible even with growth and economic recovery".

Existing policies of political parties in Australia today are based on reducing unemployment through economic growth. They are not policies for the elimination of unemployment. They are policies for living with unemployment.

No political party in Australia today has as an objective the elimination of unemployment. Every party has an objective to live with unemployment and maintain electoral support.

The objective of full employment in these terms is no longer an achievable objective. And there is no pressure from social and academic organisations, and from the media, to change this objective. Unemployment appears to be accepted as a "phenomenon to be studied and analysed, not a problem to be solved".

A solution to the problem of unemployment must surely contain the concept of "work for all". The concept of meaningful employment for all who are able and willing to work. And if it is accepted that full employment in the traditional sense will not return, then the basis for providing "work for all" cannot be entirely full time employment. There must be accommodation for employment on a less-than-full-time basis.

Full time employment enables an individual or family group to share in the distribution of income with reasonable financial security. If the solution implies other than full time employment, then additional financial support must be available to ensure this security.

Income support is already being provided to many people in the community who are unable to participate in full time employment. e.g. student allowances, unemployment benefits, age and service pensions. This income support is subject to means-testing, which in turn inhibits acceptance of employment of a part time or casual nature. The alternatives imposed by this system of income support, therefore, are full time employment or social welfare benefits. There is very little encouragement for anything in between.

Support income for the whole of the labour force, and the potential labour force, free of means test, will enable acceptance of other than traditional full time employment in areas where it can be socially and economically desirable, thus leading to the situation where full time employment for some gives way to some form of employment for all. i.e. "work for all".

A solution to the problem of unemployment requires acceptance of a change from the traditional (and unachievable) objective of "full employment" to the objective (achievable) of "work for all". This in turn requires the provision of universal income support to enable greater acceptance of less-than-full-time employment.

This proposal for a national support income for all Australians is a proposal for universal income support. It is a proposal which will make the objective of "work for all" achievable.

It is also a proposal which will obviate the need for most social welfare pensions and benefits. It is a proposal aimed at "the prevention of poverty, as opposed to mere poverty relief".

We cannot accept that there is no solution to the problem of unemployment. We cannot continue to treat the symptoms of poverty and ignore the causes. We cannot continue to ignore the social dangers implicit in the development of a two class society.

We cannot legislate for employment for all. We cannot legislate to prevent poverty, or to prevent the creation of a two class society. But we can legislate to create an environment in which these aims can be achieved.

This proposal for a national support income for all Australians can help to create this environment.

2. DEFINITION

A National Support Income is an income payable to every Australian, every adult and every child, free of tax and free of means test. An income which will be sufficient to meet basic living costs.

Each member of the Australian community – each permanent resident of Australia - receives this income as an entitlement. It is not a hand-out. It is not a welfare payment. It is recognition that each person contributes in his or her individual way to the ultimate good of the nation.

The national support income proposal provides every Australian with an equal share of part of our national income. (This part can be defined as a percentage of GDP and maintained at this level to secure proper indexation for the future.) Individuals are then free to add to their share through individual effort – e.g. through employment or investment. The intention is to provide basic financial support without destroying the incentive to add to this income.

"The support income should be at a level which allows the opportunity for a reasonable reward for employment. It is not intended that it should inhibit the desire to seek employment, but rather to encourage it. Under existing conditions people, and particularly young people, can assess the return from work as the difference between the weekly wage and the unemployment benefit. Under this proposal the reward for work is additional to the basic support income and not in place of it".

This income is similar to that described in various studies as a national dividend or social dividend, as a national basic wage or basic support income, or as a universal guaranteed minimum income. It is also similar to the basic income being studied by the Basic Income Research Group (BIRG) in the U.K.

(a) Level of Support Income

The level of support income is to be "sufficient to meet basic living costs".

Present day determinations of income meeting this definition, e.g. social security pension, and poverty line assessments, do not entirely match the requirements of the support income because of their relevance to family groups. The national support income is an individual entitlement, retained for the lifetime of each person.

It seems appropriate, however, to adopt the current social security assessment of individual requirements and relate the level of adult support income to the standard pension rate for a single person. Introducing the national support income at this level will ensure that it can adequately replace the majority of social welfare pensions and benefits, and education allowances such as TEAS.

Below the adult age of 18 the proposed rates of support income are:-

Ages 16 and 17 – 70% of the adult rate.
Below age 16 – 10% of the adult rate.

(b) Cost of the Proposal

The total value of the support incomes will be considerable, and the magnitude of the income transfers required to provide these incomes will be far beyond present day income transfers.

The overall additional tax cost to the community, however, will be minimal if the following conditions are met:-

All people in the community now in receipt of income exchange part of that income for receipt of the support income.

e.g. Pensioners exchange pension benefits up to the amount of the support income.

e.g. Wage earners exchange part of their wages for the support income.

e.g. Self-employed and people with independent means exchange part of their income for the support income through special taxation arrangements.

Employers of labour pay an additional tax based initially on the savings in labour costs (including on-costs of wages) resulting from the reduction in wage rates.

Government applies the following additional income and savings to meet the overall cost of the support incomes.

The additional tax free employers of labour

The additional tax free self-employed and people with independent means.

The savings achieved by Federal and State Governments as employers of labour.

The savings in social welfare expenditure.

These will be sufficient to meet overall cost.

(c) Options for Financing the Proposal

There is a basic principle that no employee, no pensioner, no employer, no person and no government will be worse off as a result of the introduction of the national support income proposal.

There is, however, a range of options available for financing the proposal, depending upon the degree to which the support income relies on the current income tax threshold to be tax free. These can be considered under two headings: –

(i) Option A

The support income relies entirely on the current income tax threshold for its tax free characteristics. This permits a flat rate wage reduction equal to the amount of support income, so that no individual employee is better or worse off.

This is a relatively straight-forward proposal which can be readily understood. The size of the wage reduction is determined by the level of support income, and is the same for all full time employees. There are few variables to consider, and this may help to get community support. On the other hand, this lack of variables restricts ability to adjust income transfers to ensure the viability of the proposal.

There would also be some administrative problems associated with the introduction of a flat rate wage reduction.

(ii) Option B

Part or all of the support income is tax free in its own right, effectively increasing the current income tax threshold. This requires a percentage reduction of wages, which has administrative advantages, and offers greater flexibility in ensuring the viability of the proposal.

On the other hand, it may require further taxation changes to ensure no individual employees are worse off.

It also introduces an element of income distribution which may be regarded as an enhancement of the proposal, or alternatively as "clouding the issue". The degree of income distribution may seem particularly harsh in gross terms, but it will be moderate in "after tax" terms.

This option, with the whole of the support income being tax free in its own right, offers the greatest opportunity for social and financial change with a minimum of administrative complexities. It would also have the greatest social impact receiving directly towards the objective of "work for all".

For both options, the financial viability of the proposal, i.e. the ability to finance the cost of the proposal by the transfer of income reductions and savings which are part of the proposal, is possible because of the high level of on-costs of wages in Australia. These on-costs include payroll tax, superannuation, workers' compensation, and some insurances and leave provisions.

(d) Taxation Arrangements

A taxation arrangement is necessary to facilitate transfer of funds from employers to government. The initial assessment will be based on the saving in labour costs arising from the introduction of the support. income proposal. This tax should be assessed on a measure of business activity which complies with the following conditions: –

- (a) It should be unrelated to labour costs to ensure the continuing viability of the proposal.
- (b) It should be easily recognised and defined.
- (c) It should facilitate payment by monthly or other periodic instalments.
- (d) It should be divorced from profitability.

The proposed taxation arrangement is a turnover tax. It will apply to all employers where turnover is readily identified e.g. private industry, statutory trading organisations, and possibly local government.

It can also be easily extended to cover self-employed people, and other unincorporated businesses which may not employ people directly, but do pay on a contractual basis for services rendered. This will assist in the ultimate aim of all people in the community in receipt of income foregoing some of their earnings in exchange for the support income.

For people who are in receipt of income derived from sources other than employment, an additional taxation arrangement will be necessary to ensure that they forego part of their income in exchange for the support income. This income will be what is commonly known as unearned income – i.e. interest on investments, rent from property. The taxation arrangement can be an additional tax, or surtax on unearned income, thus introducing different rates of tax for "earned" and "unearned" income. Consideration could also be given to bringing the rate of tax on unearned income in line with the tax on company profits.

The proposed turnover tax is not appropriate for Federal, State and Territory governments. For the Federal government there is only the need to recognise the initial value of the savings in labour costs. For State and Territory governments there should be a transfer of funds based initially on the savings in labour costs, and then indexed on some agreed basis.

If the income tax threshold is not altered, there will be some additional income tax payable by people such as those in part-time employment or in receipt of a part pension benefit. This additional tax revenue can be offset against the cost of implementing the proposal.

If the income tax threshold is increased then some income tax receipts will be foregone, thus adding to the cost of the proposal. This can be taken in to account in assessing the appropriate percentage rate of wage reduction.

(e) Indexation

The basis for indexation of the support income must form part of the proposal. It cannot be left to ad-hoc decisions by future governments. It would be unfair to ask the community to accept the proposal without some appropriate form of indexation.

Indexation based on movements in consumer prices is in some ways a minimum. It will retain the real value of the incomes, but it is open to interpretation and political decision-making. The present CPI is not perfect.

It is desirable to index the support income in accordance with movements in both retail prices and productivity. In this way, the real value of the incomes is maintained, and gains (and losses) in productivity immediately flow to the whole of the community.

An index based on "GCP per Capita" would provide this. It is a practical index which would also be largely divorced from political manipulation. The arrangements for financing the proposal should be sufficient to cover the cost of indexation on this basis.

3. OBJECTIVE

The primary objective of the National Support Income proposal is to create an environment in which all who are able and willing to work can obtain some form of meaningful employment. i.e. The objective of "work for all". This, above all other considerations, is the justification for the transfers of income necessary to finance it.

Reliance on economic growth is the only solution to the problem of unemployment that is put forward by political parties in Australia today. As stated by the Treasurer on 12 May 1985:—

"It is only through the achievement of non-inflationary growth, sustainable economic growth, that we can provide jobs to the unemployed and for our young people".

It is also generally accepted that economic growth alone will not provide a return to full employment. Thus we really have no solution to the problem of unemployment. If political parties have objectives which fall short of full employment then it can be reasoned that they have objectives to live with unemployment and maintain electoral support. Hence the emphasis on "more jobs" rather than "jobs for all".

There is a real danger that continuing high unemployment will lead to a divided society. Unemployment is divisive. Unemployment leads to poverty, and poverty is divisive. We have all the ingredients for a two class society.

For any long term solution to the problem of unemployment, it is necessary to consider three lines of approach:-

- (a) ease the volume of work being generated by industry by economic growth and job creation programmes. History (and economic theory) tells us that economic growth will create work. Advances in technology question whether this will be for people or machines. Economic growth alone will not provide the answer, and job creation programmes do not profess to be the answer.
- (b) Reduce the size of the labour force. This is an area for innovation. e.g. early retirement, stay longer at school, help people opt out of the labour force. These schemes are designed to reduce the statistical level of unemployment, not to eliminate the problem.
- (c) Provide a different translation of work into jobs. It can be said that industry creates work, not jobs. The translation of work into jobs is primarily a function of the industrial relations process. How this work is translated into jobs is largely a result of decisions relating to standard hours of work, and the flexibility available within the process to vary these hours. The greater the flexibility, the greater the opportunities for the whole of the labour force to share in the work that is available at any point in time.

Increasing flexibility in standard hours of work is an approach which can offer a long term solution to the problem. It offers a solution which will be adaptable to changes in economic growth and prosperity, and to the introduction of new technology.

There is today a greater acceptance of more flexible standard hours of work – as evidenced by greater acceptance of what we presently call permanent part-time work.

Since 1964/65 the proportion of employed people in part-time work has increased from 8.8% to 17.8%. Part-time work, however, is still predominantly for female employees. The proportion of female employees working part-time has increased in this period from 21.8% to 36.6%, whereas for male employees the proportion in part-time work has only increased from 3.6% to 6.2%.

The ratio of males to females working part-time is still between 1:3 and 1:4. In March 1985, there were 250,000 males and 934,000 females classified as part-time employees.

There has not been any significant swing to part-time work for the main bread winner of a family group. Until this occurs there will not be any strong move towards a long term solution to unemployment based on a more equitable sharing of the available work amongst the whole of the labour force.

And in turn this will not occur until there is some form of income support to enable the acceptance of part-time employment without a severe drop in living standards.

It can be demonstrated that employers, and particularly small employers, will benefit directly from greater flexibility of standard hours to the extent that the impetus for the introduction of varying standard hours of work will come from them in the pursuit of greater efficiency. Employers will be able to match their standard hours of work to operational requirements rather than to award requirements.

Suitable income support can lead to greater trade union acceptance of part-time work. There is genuine concern that widespread acceptance will lead to a significant drop in living standards. This will certainly be so while employment is seen as the

only way for people and families to share in national income without recourse to social welfare. A support income offering all individuals a basic share of national income as a right can be seen as being both a suitable and appropriate form of income support.

The objective of the national support income is to help achieve a long term solution to the problem of unemployment. It will contribute to economic growth as employers adjust standard hours of work to meet operational requirements. It will help people move in and out of the work force as they plan their own futures. It will provide the necessary income support to gain acceptance by employees for greater flexibility in standard hours of work.

The national support income will also add to the overall volume of work by encouraging people to engage in self-employment projects, to develop craft and cottage industries, and to undertake contracting or small-farm activities. Rural areas and country towns offer a variety of opportunities for these activities, so that the support income may help to reverse the drift of population to the cities.

- 4. INDUSTRIAL RELATIONS IMPLICATIONS

- (a) Flexible Standard Hours of Work

The term "flexible standard hours of work" is used to describe the practice of determining standard hours of work to suit the needs of individual businesses or units of operation. There will be a contractual obligation to maintain these standard hours. This obligation can be incorporated in the appropriate industrial awards or determinations.

There will be flexibility to depart from the recognised national standard, but not to the extent of short-term or short-notice fluctuations to meet changing business pressures. The term "flexible standard hours of work" is not intended to cover ad-hoc variations to suit individual employers of employees.

Examples of these varying standard hours of work can be seen today in most large firms and in a large range of small firms. Obvious examples are those applying to shift work and day work within one organisation, applying to businesses in remote locations, and applying to industries such as retailing. Reasons for adopting varying standard hours range from operational needs (e.g. shift work), to market demand (e.g. retail industry) to employee demand (e.g. remote locations).

Flexible standard hours of work, therefore, is not a new concept. With few exceptions, however, flexibility has extended only to hours of work in line with or in excess of the recognised standard. Linking the concept to reducing unemployment calls for extending it to shorter hours per week.

If the aim is to seek a solution to the problem of unemployment through starting available work more equitably then there must be a wider acceptance of standard hours which are less than the recognised standard.

The introduction of flexible standard hours of work is largely a matter for the industrial relations process. To be successful it will require the support (active or passive) of the major parties in this process – employers and employees.

There are traditional or institutional barriers to this support. Specific safeguards within the industrial relations process and supporting measures from outside will be necessary to enable these barriers to be lowered.

Within the industrial relations process safeguards can be introduced to ensure that the rights pertaining to continuous service and permanent employment are maintained, and employers and employees are not subject to exploitation through increased flexibility.

These safeguards can help to ensure that employers and employees are not exploited by demands for ad-hoc fluctuations. They will permit employers and employees to agree the standard hour of work most suited to operational needs which in turn will increase economic efficiency. They will also encourage sound employment practices adaptable to changing technology.

Reassurance will not be required, however, in relation to specific matters of concern.

For employers, there is concern that a reduction in standard hours of work accompanied by an increase in the number of employees will lead to increased costs. There are costs directly related to employing people. It can be demonstrated, however, that in most cases these additional costs can be more than offset by savings through greater efficiency, reductions in overtime, and better relief for planned and unplanned absences.

Understanding how these savings through greater efficiency and better utilisation of labour resources can be achieved will in turn point to areas within industry where shorter standard hours of work can be successfully introduced.

For employees, a matter of major concern is the effect of a reduction in wage income on their standard of living. There must be some form of income support to offset this reduction. A national support income will provide this support.

Establishing more flexible standard hours of work will be most effective as a means of tackling the problem of unemployment when the impetus for the introduction of shorter standard hours of work comes from employers in the pursuit of economic efficiency, with some satisfactory form of income support to protect the living standards of employees.

Flexibility in setting standard hours of work can also facilitate the training of more apprentices and other skilled workers through a more effective combination of part-time work and study. If, for example, employers are only required to pay trainees for time worked, then "They will be able to increase the actual number of trainees on a work-sharing basis.

Flexibility will also allow the retention, of skills of the older employees who are new "encouraged" to retire early. Why of these people would prefer reduced working hours to no work at all.

The practice of working a shorter working week need not be restricted to the older employees. It is a practice that has been adopted by some businesses during periods of downturn in business to avoid stand-downs. It is also a practice that has been proposed from time to time to avoid retrenchments, but these proposals have rarely been accepted because of the lack of suitable income support.

Reducing standard hours of work by steps such as from 48 to 44 to 40 and now to 38 hours per, week is no longer appropriate as a means of increasing employment. In fact the move from 40 to 38 hours of work has in many cases incorporated as a trade-off and eventual reduction in the numbers employed. It is not longer appropriate to reduce standard hours of work by increasing the unit cost of labour. We are not in a position to continue protecting industry from the impact of increasing industrial skills and capability of our neighbours.

Flexibility to determine standard hours of work according to operational requirements and employee satisfaction will allow us to enjoy increased leisure PROVIDED a suitable form of income support such as a national support income is introduced to provide financial security for individuals and family groups.

(b) Wage Determinations

The national support income can be likened to a national basic wage. It is part of total earnings, but it is determined and paid separately by government. It is

based on "need" rather than job evaluation. It is paid to the whole of the labour force, and to the potential labour force. i.e. to all members of the community.

In this way government accepts responsibility for that part of earnings based on social and political considerations. The assessment of need is a political as well as a social issue.

The industrial relations process, on the other hand, will be concerned with that part of earnings which is based on industrial considerations. e.g. Assessment of the value of work, job relativities, allowances and penalty rates, and the capacity of industry to pay.

Responsibility for decision making will thus be in the hands of those best qualified for this role. Government should be best qualified to determine earnings based on social considerations. The industrial relations process should be best qualified to determine earnings based on industrial matters.

The importance of wages in income distribution, in economic prosperity, and in employment, is well known and accepted. The report of the Hancock enquiry tabled in Parliament in May 1985 emphasises this importance.

Despite this, governments have, by design or default, left to a process based on conciliation and arbitration (and the adversary roles of employers and employees) the determination of total wage policies.

The introduction of a national support income will place responsibility for the determination of a share of national income for all Australians directly in the hands of government.

(c) On-costs of Wages

On-costs of wages have increased in the past few years, and now constitute a significant proportion of total labour costs. The main on-costs are payroll tax, workers' compensation, and superannuation. There are other costs such as leave provisions and various insurances which are directly related to wages. These costs rise and fall as wages rise and fall. The introduction of a national support income with a reduction in wage rates will therefore result in a proportionate reduction in these on-costs.

On the other hand on-costs which are not related to wage rates, such as uniforms and protective clothing, health and welfare services, and housing in remote locations, will not necessarily be reduced with the introduction of a national support income.

With regard to the main on-costs the introduction of a national support income can lead to reductions over and above the proportionate reductions flowing from the wage reduction.

Payroll tax is a tax on employment. In times of high unemployment this is not a desirable form of taxation. It is also failing to maintain the rate of growth expected when transferred to the states. On the other hand, it constitutes a considerable proportion of the revenue of the states, and could not be withdrawn without an alternative source of revenue being established. If the decision is that industry continue to provide this revenue then consideration can be given to an addition to the turnover tax. However, it is probable that there will be savings to both federal and state governments which can be applied to reduce the overall tax charge on industry.

Workers' compensation costs vary considerably from state to state, and from industry to industry. In some industries the costs are in the vicinity of 20X of wages. A national support income should result in an immediate proportionate reduction in premium costs. It will also lead to further cost savings in other forms of insurance where assessment of future earnings is significant. e.g. sickness and accident insurance, third party insurance, public indemnity insurance. It can also be seen as the basis for a national compensation scheme, achieving greater equity for the whole community, and removing the need for costly exercises aimed solely at determining causes of accidents, injuries and diseases.

Superannuation is an area where the concept of a national scheme is a desirable objective to ensure coverage of all Australians. This goes beyond the present objective of coverage for all workers. A national support income will remove the need for a national scheme, as the lifelong nature of the income will serve as superannuation on retirement.

Traditionally, superannuation has been intended to provide some degree of financial security on retirement, and thus reduce the need to seek assistance from the State. To this end occupational and private superannuation schemes attract taxation concessions. In the 1983-84 budget papers these concessions were estimated to be in the order of \$2,480M. This traditional view of superannuation is no longer valid. Commutation of pensions, for example, has become widespread, permitting rearrangement of income to maximise social security pension benefits.

There is a need to review our superannuation objectives – our policies and practices. Nowhere is this more important than in some government funded schemes with future commitments which threaten to place enormous cost burdens on future generations.

The national support income proposal will offer a life-long indexed income, with occupational and private superannuation directed towards topping up this income.

Superannuation costs in total will be reduced, and there would be justification for government to withdraw all or part of the taxation concessions. Employer contributions would be reduced as occupational schemes were reduced to "topping up" schemes. Employee contributions would also be reduced or

eliminated without detracting from long term security, thus adding to their take-home pay.

Overall, all parties to superannuation – employers, employees and government – could benefit.

5. SOCIAL WELFARE IMPLICATIONS

Social welfare policies of political parties in Australia today are based on the philosophy of "helping those in need". These policies are designed basically to treat the results of problems within the community rather than attempting to remove the problems.

This applies equally to the policies of our social welfare institutions. They see their role as alleviating poverty rather than preventing poverty. This is a traditional philanthropic philosophy reinforced in recent years by the guaranteed minimum income concept developed by Professor Henderson.

It is in the area of unemployment that the implications of this philosophy are most apparent. Policies based on "need" and therefore relying on means-testing of one form or another, are designed to provide financial assistance to the unemployed. They are not designed to provide them with employment.

This approach is well illustrated by recent submissions from ACOSS and The Brotherhood of St. Laurence to the tax summit.

There is no pressure from social institutions to seek a solution to the problem of unemployment. Without such pressure efforts of political parties are being directed, and will continue to be directed towards acceptance of long-term unemployment, and how to live with it. If there is long-term unemployment there will be long-term poverty.

The national support income proposal, on the other hand, is designed to prevent poverty, and not merely to alleviate poverty. It will provide all Australians with a level of financial support not envisaged in any other proposal. We will no longer have a need for age and service pensions, for invalid pensions, for unemployment and sickness benefits, for family allowances, for widows' pensions and the basic supporting parents' benefits. We will no longer classify people according to these kinds of pensions and benefits. The need for the family income supplement will disappear, as well the need for education, allowances such as TEAS.

We have a society today in which people are expected to seek employment to share in our national income. Imposed on this society is a system of means-tested social welfare benefits which not only inhibits the desire to seek work, but also inhibits acceptance of employment on a less than full-time basis. If we persist with this system then surely there is an obligation on society to ensure there is sufficient full-time employment available for all who are able and willing to work. If we are unable to fulfil this obligation then we do have a society in

which some people are denied the opportunity to work in order that others are employed.

We do have an obligation to allow all who are able and willing to work to share in our national income through employment. We need to change the system which denies this obligation. We need to encourage other than full-time employment. We need to change the system of means-tested social welfare benefits.

Means-tested social welfare benefits are no longer appropriate. They require complex and unwieldy tests; they create huge administrative problems; they inhibit maximisation of employment opportunities; they discourage casual, part-time and temporary employment; they cause poverty traps; and they lead to a loss of dignity and respect.

The cost of the complexity of means-testing and associated administrative problems is evidenced by the expectation to reduce expenditure by \$25M by the adoption of revised procedures to reduce incorrect welfare payments, as announced by the Treasurer on 12 May 1985.

The inhibitions discouraging acceptance of casual, part-time and temporary employment result from the high effective marginal tax rates facing people in receipt of means-tested social welfare benefits. This is well documented.

With younger people who are unemployed the administrative problems associated with changes in eligibility add to these inhibitions. It is little wonder that people willing to carry out work of a part-time or casual nature are often those not in receipt of means-tested benefits. e.g. housewives and school children.

The process of means-testing leads to a loss of dignity and respect. It means a dependency on bureaucracy. It means conforming to detailed regulations and procedures. It means a weakening of the desire to train and re-train.

If our aim is to develop a community with drive, initiative, and motivation; a community which is innovative and self-reliant then our aim should be to eliminate the means test, not redefine it.

A universal support income free of means test will by definition be paid to all Australians – the very rich and the very poor. The very rich cannot be excluded. Just as with a reduction in the higher rate of personal income tax the very rich cannot be excluded. It is part of the overall proposal, or package, to help achieve the objective.

The national support income proposal, however, does require some compensatory reduction in wages and other income. This is basic to the concept. There is at present an implied and accepted relativity between social welfare benefits and income such as wages. If the support income is to replace social welfare benefits then it must also replace part of other incomes to maintain a similar relativity.

6. TAXATION AND INCOME DISTRIBUTION IMPLICATIONS

The proposal for payment of a national support income to all Australians will obviously require a huge transfer of income. It will require a transfer approximately four times greater than existing transfers through social welfare payments.

A feature of the proposal is that it is based on an initial rearrangement of sources of income rather than a tax-funded support income. The main vehicle for transferring funds; the turnover tax; is largely transferring funds which otherwise would have been applied as a direct payment to employees, together with the on-costs of that payment. In this sense it is not adding to the tax burden of the community.

This turnover tax will provide government with revenue similar to the present total of personal income tax, thus altering dramatically the proportion of personal income tax as part of total revenue. It will drop from over 50% to below 35% of total collections. This will be of significance when considering future taxation policy, as this change can be achieved without any additional cost which might be reflected in higher prices.

On average, no business should have increased costs as a result of the turnover tax. On the contrary, there should be scope for reduction as on-costs of wages are further reduced.

The use of turnover as the basis for assessing the tax can evoke some expressions of concern based on price experience. Vertical; integration of firms, for example, can reduce total tax collections if there is complete absorption to the extent that there is no longer an identifiable intermediate stage in the total process. Complete absorption of firms is not a common practice today with the development of skilled management rather than owner-entrepreneurs. It also precludes trading to other customers at the intermediate stage, thus leading to monopolistic practices which can be prevented by legislation.

The extent to which personal income tax policy will be affected by the introduction of the national support income proposal will depend upon how far the support income relies upon the present income tax threshold for its tax-free characteristic. If, for example, it relies entirely on the taxation threshold, with a flat-rate wage reduction, (i.e. Option A), then no change is envisaged.

If, however, some part or all of the support income is tax-free in its own right, increasing the overall tax threshold, then some change will be introduced. This will apply when a percentage wage reduction is proposed. (i.e. Option B).

If the support income is wholly tax-free in its own right i.e. it is a tax-free payment over and above the existing tax threshold – then it will introduce a significant redistribution of income in favour of the lower income groups. This is a desirable,

and perhaps necessary result. Work sharing through reduced standard hours of work is most appropriate in those areas at employment where there is least scope for decision making and the application of specialised skills. These tend to be the lower paid jobs. They also tend to be the jobs most likely to be replaced by new technology. The need for income support to permit acceptance of reduced hours of work without financial hardship will therefore be greatest amongst those who now work, or seek work in these areas of employment. Some redistribution of income in favour of these groups will ensure that the full benefit of the support income is achieved.

There will also be some redistribution in favour of the two parent, one income families. Some two income families may subsequently question the need for a second income.

The degree to which this redistribution occurs will depend upon the extent to which the support income is tax-free in its own right. Maximum redistribution, with the support income being wholly tax-free, may appear excessive in gross terms, but after income tax is taken into account the chance is moderated. Further moderation can be achieved by adjusting the income tax scales, increasing the lower rates and reducing the upper rates. For those who support the concept of a single rate of tax this can be seen as a move in that direction.

A tax-free support income accompanied by a percentage reduction in wages offers the opportunity to introduce beneficial changes in our taxation and income distribution policies while moving towards the objective of "work for all". These changes can be developed or modified to meet the wishes of the community, taking into account the benefits that flow from them. It is not a "take it or leave it" proposal, but a proposal that can be modified and adjusted to meet community needs.

The benefits of the national support income proposal, and the changes it brings to our taxation policies, will be achieved by a restructuring of our income distribution processes rather than by merely adding to our overall costs and taxation changes.

7. SPECIAL CONSIDERATIONS

(a) Individual Development

The provision of a national support income will enable and encourage people to undertake specialised training or obtain practical experience in activities for which they have special skills and aptitudes. In this way they will be able to achieve standards of excellence not attainable today because of financial pressures. In time the community as a whole will reflect these individual standards of achievement.

The security of the income, for example, will enable people to devote time to improving their skills in sport and recreational activities, thus raising the overall standard of competence, and of health, in the community. It is an unfortunate

aspect of our society today that many young people who are devoting time and effort to develop their skills in this way are relying on unemployment benefits for financial support.

A similar situation exists for people attempting to improve their skills in activities associated with music, the theatre, and the arts generally. In these areas there is also the longer-term consideration of career development. This is now recognised by various forms of government and non-government assistance.

Many people have special skills and aptitudes for self-employment activities such as craft work, small scale farming, and a range of cottage industries and contracting. Lack of financial support, however, prevents them branching out on their own. The national support income would provide this financial support. It would remove the remove the fear of starvation while building up a business.

A similar situation would arise in regard to co-operatives. Removal of the immediate need to "make a living", or ever the longer term need to rely solely on the co-operative, will increase the attractiveness and viability of a whole rage of activities suited to this approach.

The long-term security of an indexed income payable for life will also enable people to plan periods of vocational training and re-training to cope with new technology. Greater mobility of labour and the objective of "work for all" with facilitate this type of planning.

Overall, the financial security of the support income will enable people to plan their own careers with greater certainty, with movements in and out of the labour force as required or desired to develop various skills and aptitudes.

It will also aid in the personal development of individuals so that they are better able to plan their own futures. It will help people become more self-reliant. It will improve their dignity and self-respect. It will enable people to assess situations and make judgements more independently and more objectively, thus calling for greater understanding and responsibility from leaders of groups within the community.

The national support income, through this support for individuals will contribute significantly to the ultimate strength of the community, based as it is on the principles of free enterprise and individual rights. It will lead better democratic processes as community leaders such as politicians, employers and trade union officials become more understanding and responsibility for all people as they see more clearly their future linked with the economic future of the nation.

b) Acceptance of Technological Change

The greatest single fear arising from consideration of technological is the fear of loss of employment, (partially as it applies to young people), and out apparent inability to come to grips with the problem, makes such a fear inevitable. The danger is that it will result in regressive actions designed changes to "protect

jobs" at the expense of socially desirable changes and ultimately at the expense of operations or even industries.

If we look at the effect of technology in the 1900's we must surely the benefits achieved. Including the removal of the labour content of many operations has been socially desirable and acceptable.

Technology today, however, is not only about the replacement of routine repetitive operations. It is also about the introduction of routine repetitive operations. (e.g. the insertion of basic data in computer systems, programmes and operations). Even the simple electronic calculator has replaced numerical skills with push button operations.

There are, therefore, two opposing situations in regard to the employment effects of new technology. Reducing routine repetitive operations on the one hand, and introducing routine repetitive operations on the other.

The national support income can help in the acceptance of new technology in these opposing situations.

Firstly, the role of the national support income in achieving the objective of "work for all" will allow us as a society to adapt more readily to any reduction in the labour content of an individual operation. The flexibility in standard hours of work will facilitate adaptation to changing employment requirements.

Secondly, the greater acceptance of part-time employment will enable better work practices in areas where repetitive operations result from new technology. The health problems resulting from these operations are now being appreciated, and pressure may well flow from this appreciation to introduce greater flexibility in working conditions, including hours of work.

This ideal situation's one in which the introduction of new technology can be viewed in the light of potential benefit to the community, without the inhibitions imposed by employment concerns. Employment concerns are not disregarded, but are resolved through processes which enable adaptation to changing circumstances.

Consultation and communication are necessary for proper understanding. However, even with the best of intentions, over-protection of jobs can have a deleterious effect in the long term. It is no solution to save a job and lose an industry.

There should be a basic environment in which changes can be viewed in the light of long-term good, and the immediate effects on individuals or groups of people minimised by accepted and acceptable work-sharing principles. A national support income will help create this environment.

Any increase in repetitive operations due to technological change can be shared amongst more people through the work-sharing influences of the support income.

Any reduced employment opportunities due to technological change will be reflected in the greater acceptance of leisure made possible by the support income.

The economic benefits of technological change will be reflected in changes in the support income through indexation.

(c) Administration

The national support income will replace many of the existing social security and welfare benefits, including some education allowances. Apart from family allowances these benefits are subject to means test, requiring complex and costly administration processes. Moving to a support income free of means test should result in significant savings.

The administration of the support income should be separate from the department. The support income is not a welfare payment, and should not be seen as such. It is share of national income, or a national dividend.

The administration could be within or associated with the taxation department. This department has a system, based on reference numbers, for all taxpayers. It could easily be extended to all adults, or to all aged 16 and above. For people under 16 years of age the existing procedures for payment of family allowances can probably remain.

Taxation department records have a degree of confidentiality which will be appropriate for the support incomes, although the basic information required is minimal. i.e. proof of identity and existence and residential status.

Payment of the support income can be associated with lodgement of an income tax form or declaration. It should be possible to incorporate a choice for individuals of a regular payment or a taxation rebate.

8. SUMMARY AND COSTINGS

The National Support Income proposal provides for the payment of a support income, free of tax and free of means test, to all Australians. Two principles basic to this proposal are: –

- (i) The support income or an adult should be at least equal to the standard social security pension for a single person. This allows the support income to effectively replace the majority of social security and welfare benefits.

The total value of the support incomes, and the net cost of the proposal after allowing for savings for social welfare expenditure, are determined by reference to this principle.

- (ii) There should be a reduction in wage and other incomes in exchange for receipt of the support income. The existing relationship between pensions and wages should be maintained. If pensions are to be replaced by the support income then part of wages should also be replaced by this income. Other incomes (interest, dividends, rents, etc.) should likewise be reduced.

This principle indicates steps that can be taken to introduce the proposal without adding to the overall tax burden of the community. There will be some additional taxes. e.g. turnover tax and tax on unearned income, but they will be designed solely to transfer of incomes and savings or income reductions which are part of the proposal.

The proposal is designed to be financially viable— i.e. sufficient transfers a incomes and savings can be generated to meet the net cost of the proposal.

It is difficult to assess with absolute accuracy the cost-effectiveness of the proposal in the light of current published statistics. Some estimations must be made. Subject to the accuracy of these estimates, however, the financial viability of the proposal can be confirmed.

(a) Cost of the Proposal

The total value of the support incomes and the net cost of the proposal can be assessed with reasonable accuracy.

In January 1986 the standard pension rate for a single person is \$97.70 p.w. The adult –rate of support income should therefore be at least equal to this rate.

For people aged 16 and 17, 70% of this rate will adequately cover social welfare benefits for this age group. For those under the age of 16, 10% of this rate will likewise cover existing family allowances.

The population of Australia in January 1986 is estimated to be 15.8 million, with 11.2 million adults, 0.5 million aged 16 and 17, and 4.1 million under age 16. (based on 1% increase on March 1985 estimates Abs cat. 3101.0 25 November 1985).

The total value of the support incomes will thus be:

For an adult rate of \$98 p.a.	\$60,948M p.a.
For an adult rate of \$100 p.a.	\$62,192M p.a.

Savings in social welfare expenditure can be offset against the total value of the incomes to arrive at the net cost of the proposal. Based on budget estimates for 1985/86, direct savings should be at least \$18,000M p.a. There will also be additional indirect savings which are difficult to estimate accurately.

The net cost of the proposal, taking in to account direct savings only, will therefore be: –

For an adult rate of \$98 p.w	\$42,948M p.a.
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For an adult rate of \$100 p.w.	\$44, 192M p.a.
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(b) Reduction in Wages

There are two options available or reducing wages.

Option A. flat rate reduction

Wage rates will be reduced by an amount equal to the rate of support income. e.g. For an, adult rate of support income of \$98 p.w. weekly wage rate will be reduced by %99 p.w. For full time employees this will mean a reduction in income of \$98 p.w. and part time employees a pro rata amount.

Based on 5.5M full time employees, and 1.2M part time employees averaging 70% of the weekly wage rate, the value of the reduction in wages will be:

For an adult rate of \$98 p.w.	\$32,300M p.a.
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For an adult rate of \$100 p.w.	\$33,000M p.a.
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(Estimate of labour force based on ABS estimate for December 1985, adjusted to allow for exclusion of unpaid family helpers and the inclusion of permanent defence forces personnel.)

Option B. A percentage reduction.

It is estimated that in the year 1985-86 wages and salaries paid in Australia to residents of Australia will be in the order of \$107,000M.

(Based on the "wages and salaries" component of wages, salaries and supplements in national accounts, determined by reference to the wages and salaries component of taxable income, and forecast for the year 1925-66.)

The annual value of any percentage wage reduction will therefore be the equivalent percentage of \$107,000M p.a.

To assess the appropriate percentage reduction for the proposal it's necessary to take into account two factors:-

- (i) the relationship between the wage reduction and the amount of support income.

Ideally, the amount of wage reduction, (net after tax), and the amount of adult support income, should be similar for an employee receiving the equivalent of average weekly earnings. Average weekly earnings for all employed persons for the year 1985-66 are estimated to be \$350 p.w.

(\$344.10 p.w. for the quarter ending June 1985 – ABS Cat. 6302.0).

- (ii) The amount of wage reduction that is necessary to ensure the financial viability of the proposal.

It can be said that for every \$1 of support income there is an equivalent percentage reduction of wages which will ensure the viability. For this reason alone it can be claimed that the proposal can be introduced without any additional tax burden on the community.)

- (c) On-Costs of Wages

Any reduction in wages will lead to a reduction in labour costs for employers. The value of the reduction in labour costs will be greater than the value of the wage reduction because of the on-costs of wages. These are the costs related to wages over and above annual payments of wages and associated paid leave. e.g. payroll tax, workers' compensation premiums, superannuation, insurances, long service leave provisions.

These are estimated to be 20% of wages, as indicated by a survey conducted by the ' Confederation of Australia Industry in 1985.

When considering the savings attributable to a wage reduction the estimate will be the value of the wage reduction plus on-costs of 20%. For private industry, and for public industry where a turnover can be established, (e.g. local government, statutory trading organisations), the savings in labour costs will be transferred to government in the form of - turnover tax. For other state and territory public services there will be a transfer to government. For other federal public services there will be a direct cost saving.

The total savings in labour costs due to a reduction in wages will therefore be reflected in: –

Turnover tax	80% of savings.
Transfers between governments	14% of savings
Saving by federal government	6% of savings.

(d) Taxation Considerations

(i) Turnover tax.

The initial rate of turnover tax will reflect the savings in labour costs attributable to the introduction of the support income proposal. It will take into account the relationship between costs and turnover.

Ideally there should be a common rate of turnover tax for all industry, but this would assume that the relationship between labour costs and turnover is common throughout all industries. Establishing the rate on an industry basis may be more appropriate.

The rate of turnover tax will be such that the amount paid by a firm or organisation in the first year is as near as possible to the actual savings in labour costs in that year.

For example:-

Firm A. Labour costs (include on-costs) are 30% of turnover. Wage reduction of 30% equals 30% of 30% or 9% on turnover.

Firm B. Labour costs (including on-costs) are 20% of turnover. Wage reduction of 30% equals 20% of 20%, or 6% of turnover.

For Firm A, a turnover tax rate of 9% would be appropriate.

For Firm B, a rate of 6%.

Whatever rate of turnover tax is established, the return to government in the first year should be similar to the estimated value of annual savings in labour costs.

The turnover tax could also be applied to all self-employed people and to unincorporated enterprises which engage people on a contractual or consulting basis rather than as employees.

(ii) Income tax.

Additional tax revenue will be received through the introduction of some form of tax on unearned income, and from additional income received by some people.

The tax on unearned income is suggested as the appropriate way to achieve a reduction in income such as interest, dividends, rent, etc. similar to the reduction in wages. The rate of tax and method of assessment will depend upon the method of reducing wages and the tax-free nature of the support incomes.

As the support income is payable to all people, including those who are now classified as dependants for income tax, all taxpayers will be taxed at the single rate of tax. There will be some increase in tax revenue flowing from the removal of the exemption rate for dependants.

There will also be some additional tax revenue if the support income is not wholly tax free over and above the existing tax threshold. Some people such as part time employees, pensioners with part pensions, and people relying primarily on unearned income, will have an increase in taxable income, and part of this will be returned as income tax.

There may also be some income tax revenue foregone. If the support income is wholly or partly tax free over and above the tax threshold, income tax revenue will be reduced. This reduction can be modified by adjustments to the tax scales - a necessary step if the redistribution of income flowing from the proposal is too severe.

Overall, there will be some additional tax revenue if the support income relies solely on the income tax threshold for its tax free nature. This additional revenue will be offset by the income tax foregone. At no stage, however, should there be a reduction in tax revenue. Adjustments to the tax scales can ensure that the proposal is at least neutral, with revenue foregone off-setting revenue gained.

The support income can rely on the income tax threshold to be a tax free income. i.e. All income earned over and above the support income is subject to income tax.

This enables the introduction of a support income with a minimum of side effects such as redistribution of income. In this way the direct implications of the proposal can be more readily understood and accepted.

It will, however, require collection of income tax for all earnings, however small. This will mean taxing income of young people, taxing of interest on small savings, and for all paid work, of casual or part-time or temporary nature. This may well lead to the growth of a "cash economy".

This is the only condition under which a flat rate reduction of wages – option A – can be considered. This option may then be more readily understood and accepted but it can lead to administrative problems in determining how to arrive at a flat rate reduction in occupations where penalty rates are significant, such as shift work.

If, on the other hand, part or all of a support income is tax free over and above the income tax threshold there must be a percentage reduction in wages. i.e option B.

This introduces some redistribution of income in favour of lower income groups as the percentage reduction in wages is accompanying by a flat rate of support income. This redistribution is modified by the effects of income tax, and the degree to which a support income is tax free it can be further modified by changing the tax scales.

Allowing additional income over and above support income to be tax free will avoid problems of collecting income tax on all income however small it will help to avoid the building up of a "cash economy."

A percentage reduction in wages also offers administrative advantages – i.e a percentage reduction in the basic rate of pay will automatically flow to all elements which are expressed as a percentage of the basic rate, such as shift work, overtime and weekend work.

If the support income is wholly tax free, a wage reduction of 40% will enable a single person on a wage equal to average weekly earnings (i.e \$350 per week) to be no better or worse off after receipt of the support income.

On the other hand, if the support income is not tax free in its own right, a wage reduction of 28% will be sufficient.

Within this range of 28% - 40% the rate will be established with regard to the financial viability of the proposal.

(f) Financing the Proposal

Option A (Flat rate wage reduction).

This is appropriate only when the support income relies on the tax threshold to be tax free. In this case there will be increases in taxation revenue up to \$4,000M p.a. to help offset any shortfall between the savings and transfers attributable to the wage reduction and the net cost of the proposal. Estimates are:

	\$M p.a.	\$M p.a
Net cost of the proposal	42,948	
Adult rate of \$98 p.w.		44,192
Adult rate of \$100 p.w.		
Savings and transfers	38,760	39,600
Balance	4,188	4,592

These balances can be adequately covered by increases in taxation revenue and indirect savings in social welfare expenditure. This option is financially viable.

Option B (Percentage wage reduction).

This option is more complex. There are more alternatives, and there are maze benefits to be gained. Looking at the suggested range of wage reductions, estimates are:

	\$M p.a.	\$M p.a.
Net cost of the		

proposal	42,948
Adult rate of \$98 p.w.	44,192
Adult rate of \$100 p.w	

Savings and transfers

28% reduction (deficit)	wage Balance	36,080 6,868	36,080 8,112
4VA' reduction (surplus)	wage Balance	51,542 8,594	51,542 7,350

Based on these estimates a 28% wage reduction will require additional income tax revenue and other savings which may not be achievable. A 40% wage reduction, on the other hand, provides a significant surplus.

Savings and transfers attributable to wage reductions in the range 30% to 35% are:

	\$M p.a.
30%	38,520
31%	39,804
32%	41,088
33%	42,372
34%	43,656
35%	44,940

A wage reduction of 35% would lead to surplus. A wage reduction of 34% would lead to a surplus if the adult support income is \$98 p.w.

These points to a suitable wage reduction being in the order of 30% to 33%, the appropriate rate depending upon the indirect savings in social welfare expenditure and the tax free nature of the support income.