THE BASIC SOLUTION TO UNEMPLOYMENT

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Abstract?

A country’s system of income support determines the impact unemployment has on
low income earners. Governments throughout the English speaking western world
have imposed means testing, targeted benefits, activity testing and 'mutual obligation'
regimes to discourage those without paid work from becoming 'dependent' on the
State. These governments are obsessed by the need to limit the amount of income
support so as discourage people remaining on benefits (the old less eligibility principle) 1.

There is an alternative approach to income support: that of Basic Income which, if
implemented, could as Gorz (1999) and Goodin (1992) suggest, result in a more
equitable sharing of paid work, civil activity and leisure without inhibiting
productivity.

In this article, I shall examine the way the existing Australian system of income support,
with its associated compulsion imposed upon income support recipients, is an
inadequate 'solution' to either income needs or employment. The analysis suggests that
a Guaranteed Minimum Income would be an improvement but that a universal Basic
Income is the most useful approach; if implemented, it would meet both the income and
employment needs of Australians consigned to the reserve army of labour.

A brief history of the denigration of people who are unemployed

Since at least the 1950s, successive Australian governments have believed that low paid
workers and people who are unemployed in have a propensity to sink into the slough
of 'dependency' unless the state was ever vigilant. This was why the unemployment
benefit eligibility requirements, since that time, in the opinion of Allan Jordan a senior
policy officer in the Department of Social Security, have demanded that applicants
establish they are “fit, ready and willing to work” (cited in Windschuttle 1981; 181).
Hence the old Department of Social Security joke that “Christ would be refused unemployment benefits because he had a beard, wore sandals and hung round the Cross”.

From the end of the Second World War until 1974 unemployment in Australia remained around 1% most of the time (Stilwell 2000). Since then unemployment has dramatically risen as it has in most parts of the western world, (Rifkin 1994; Ormerod 1994; Kelsey 1995). Associated with the rise in the level of unemployment has been, in the Australian and New Zealand context, an increase in the vitriol which governments have directed towards those whom government and industry policy excluded from the paid labour force (Bradford 1997; Boreham, Dow & Leet 1999: ch. 1).

In 1972 the advent of the Whitlam Government initially heralded a new deal for social security recipients; but as the level of unemployment, particularly youth unemployment, rose in Australia so too did the frequency of attacks on unemployed people. Starting with Hayden and Cameron's slurs about 'work shy lion tamers' and 'dole bludgers' (Windschuttle 1981:180-190), attacks on unemployed people increased in intensity during the Fraser Government (Tomlinson 1982: ch. 3). During the Hawke and Keating Governments, Brian Howe, Minister for Social Security, gave expression to negative evaluations of unemployed people through rediscovering their propensity for 'dependency'. This in turn led Professor Bettina Cass, heading a review of the Department, to propose extending the work testing of unemployed people to encompass activity testing (Cass 1988). Which suggestion, in turn, has found recent expression in the 'participation income support' agenda proposed by the McClure Report (2000). Jocelyn Newman (1999), the then Minister with responsibility for income support, who commissioned this Report was obsessed with the alleged propensity of poor people to become 'dependent' on the State. The Howard Government's Work for the Dole and wider 'mutual obligation' agendas are simply an extension and intensification of the obligating regimes imposed on unemployed people in Australia for the last half century.

Where income support for unemployed people fits in the Australian social security system
The Howard Government has declared its intention to maintain a social welfare safety net in order to assist all in need through no fault of their own (Howard 1999, 2000; Newman 1999: 7). The Australian income support system is currently non-contributory,
categorical, selective, and targeted towards categories of beneficiaries on the basis of some presumed 'need'. From 1941 until 1987 child endowment was a universal payment. Now metamorphosed into family allowances, it too fits the general mould. There is still one payment, 'the blind pension', which is not selective. It is a subcategory of the disability support pension.

Attempting to ascertain the degree of impairment experienced by an individual applicant, and then paying those applicants who can establish they have met some predetermined 'level of incapacity to work', is very costly and an extraordinarily inefficient method of providing income support to those with a disability. People with equivalent levels of impairments often have widely different employment histories (Perry 1995: 29). If the desire is to encourage productivity/contribution/inclusion by those who have a disability, it would be more efficient to provide a universal income guarantee. As just mentioned, Australian governments have recognised this in relation to 'blind pensioners' (Jordan 1984; Kewley 1973) but continue to subject others who have severe disabilities to stigmatised, selective, targeted, categorical payments. Goodin points out (1992: 196-97) that attempting to determine work capacity by measuring levels of impairment, and the adoption of a unit of payment other than the individual, creates target inefficiencies because such tests of eligibility are 'surrogate measures'. They do not test directly the things they purport to measure.

The majority of payments made to unemployed people Jobsearch, Newstart, and the Common Youth Allowance are, like the bulk of income support payments, categorical, means tested and targeted. They currently have associated obligations compelling unemployed people to participate in training, volunteer effort, Work for the Dole or any other program Centrelink or the recently Christianised and privatised job search agencies dictate. The Reference Group on Welfare Reform (McClure 2000) has foreshadowed extending such compulsion to lone parents (whose youngest child is over 13 years) and to some disability support pensioners.

The Reference Group has also proposed that the current categorical payment system be replaced with one 'working age' payment system (for those who now receive benefits and pensions) which would discriminate between applicants in terms of 'special needs', family composition, participation requirements and other income. This proposal has been criticised for its individualising entitlements, its complexity and its failure to incorporate all citizens (Tomlinson 2000).
A return to the Poor Laws

There have been right wing writers (Sullivan 2000; C. Murray 1984; Mead 1986, 1997) who have stoked the fires of 'dependency' rhetoric and thus encouraged the general direction of the Howard Government's income support policy. Nor has the existing system of income support in Australia been without its critics on the left for failing to efficiently deliver sufficient benefits to those in the most financial need. The categorical/selective approach has drawn criticism both here and overseas. Despite this, there continue to be supporters of the current categorical system in Australia, for example Whiteford (1998). Pixley (1993) and Cass (1988) ardently promoted the ‘active society’ approach, at least during the period Labor was in power.

Governments in Australia, New Zealand, Canada, Britain and the United States consistently suggest they are providing social security in an efficient and accountable manner. They are certainly capable of determining the cost of delivering specific categorical benefits to those recipients who are paid. They can and do calculate how much they 'save' by cutting people off income support who do not meet the totality of eligibility requirements for any specific benefit. This is accounting or target efficiency. The governments in question seem uninterested in how people who are refused benefits get by, or what social costs are incurred in the wake of decisions to remove income support from such citizens. Target efficiency processes give no measure of how efficient the system of social security is. Because the central issues which should be taken into account when assessing the efficiency of a social security system are not considered.

If the efficiency of the system, as a whole, was being calculated some of the questions which would have to be taken into account, would be:

- Are any of the people excluded from the social security system poor?
- How many people who have an entitlement miss out?
- How satisfied are the people who are confined to low levels of income support?
- Does the social security system advance social justice for all permanent residents?
- Are the human rights of all residents protected (or even enhanced)?
- Does the system remove all obstacles to the inclusion of people with a disability?
- Are all genders, ages and ethnic groups treated equally or equitably?
- Is equitable treatment provided to city and country people?
- Does the system of income support provide sufficient security to recipients so as to
allow them to contribute to society in ways with which they are comfortable?

The ideological underpinnings of the present Australian Government's approach have been succinctly enunciated by the Prime Minister (Howard 1999, 2000). They amount to an amalgam of individual liberal economic policy and conservative social policy. The central features of this conservative position, are:

¥ support for traditional values, such as the family;
¥ the importance of work;
¥ sexual restraint;
¥ the sanctity of private property; and
¥ the belief in the inherent imperfection of human beings.

From the liberal position, the Howard Government takes the importance of the individual which it overlays on a general conservative social orientation. Hugh Stretton (1996) and others (e.g. Goodin 1988: 7) see in the imposition of individualised obligation and eligibility determinations a return to the charity system of the Poor Laws so aptly described by Polanyi (1945).

**Generalised income guarantees**

In a recent 12 month period 200,000 recipients of income support were ‘breached’ by Centrelink (ACOSS 2000). Income insecurity is a constant preoccupation of citizens surviving on low incomes. The categorical, selective, targeted welfare payments which exist in Britain, Canada, Australia, New Zealand and the United States have not succeeded in abolishing Beveridge's five giants of 'squalor, want, ignorance, disease and idleness' (Timmins 1995: 13 - 31). Jamrozik’s (2001 Chs 1-2) description of an assisting rather than a stand alone welfare support system is an echo of Churchill’s response to Lord George’s declaration that the introduction, in 1909, of the first state pensions in Britain had “lifted the shadow of the workhouse from the homes of the poor”; Churchill said “We have not pretended to carry the toiler on to dry land. What we have done is to strap a lifebelt about him” (cited in Timmins 1995: 13). The modern welfare state, in the countries mentioned, does not guarantee all permanent residents a secure income. Each of these countries has toyed with the idea of introducing generalised income guarantees for all permanent residents. Such partial income guarantees as have been installed have had eligibility requirements which demand either proven incapacity to labour, work-willingness or some socially approved basis for not working (such as sole parenting or

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Many forms of generalised income guarantees have been suggested, including: Guaranteed Minimum Income (GMI), Negative Income Tax (NIT) and Basic Income. The major difference between GMI or NIT and Basic Income is that the first two are selective while Basic Income is universal. Proponents of NIT and GMI (for example. Friedman 1966; 205-219; Henderson 1975 Vol. 1 ch. 6) argue these models would cost less to introduce than would a Basic Income. It is true that government outlays would be lower under NIT and GMI; but the actual drain on the budget bottom line of an unconditional Basic Income (because of increased tax compliance and ease of administration) might not be much greater than with other forms of income guarantees (Van Parijs 2000: 8-9).

The history of Australia's flirtation with income guarantees has been described elsewhere. The essential advantage attaching to GMI or NIT, compared with categorical income support, is that 'it provides an income floor below which no one falls without imposing a ceiling beyond which no-one rises' (Rhys-Williams 1965: 163).

A non-conditional GMI or NIT, paid to each individual, would at least ensure that no permanent resident would be without an entitlement to a base income. This provides some limited security for those facing unemployment. But because NIT and GMI schemes are selective, unemployed people may not be able to calculate how their cash-in-hand income will be affected by part-time or even low wage full time work. The existing system of income support, because of combined income support withdrawal and income tax rates, exposes people who exceed the income free level to effective marginal 'tax' rates of between 60% and 200% for each additional dollar earned. This has to be compared with a 47% income tax rate for incomes over $60,000. The fact that a Government sees such a situation as unremarkable stems from the belief that the poor need to be compelled but the rich need to be encouraged.

Employment Minister Abbott (2001) suggested that the “mutual obligation” requirements are placed on the unemployed to give them a little nudge, to get them out of a sense of complacency about their “dependency” on welfare and to assist them to find paid work. Such ‘job finding assistance’ would if it resulted in full time employment allow those who were unemployed to escape such high withdrawal of benefit rates, however Abbott was unable to explain why Work for the Dole was being

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extended at a time when job vacancies were decreasing and unemployment increasing. The oft repeated mantra of Howard and his ministers that “the best form of welfare is work” needs to be put alongside the labour market reality that there are in Australia 7 unemployed people for every job vacancy and in Queensland there are 16 unemployed people for every job vacancy (ACOSS 2001).

I do not draw attention to this inequitable treatment of income, between those reliant on the income support system and those who derive their livelihood from other sources, to support the ill-informed assertion that decent income support payments inhibit work willingness. I do it to argue that the people who are the most marginal to the productive process are unnecessarily disadvantaged by the confusing multiple withdrawal rates which occur when people are working and receiving categorical selective benefits. Few workers regard the income advantage derived from working as the sole reason for engaging in employment. Financial advantage is one factor influencing job choice. The actual decision to seek or accept work will depend on many factors - of which the financial aspect is only one. When Professor Connie Benn headed the Brotherhood of St Lawrence's ARC Project in the mid 1970s she instituted a GMI experiment and found that bread winners from low income families continued to work or actively seek work even when their families would have been as financially well off had they simply relied upon the GMI provided by the Brotherhood (Benn 1981; Salmon 1974).

The fear that generous categorical payments create work disincentives because the financial margin between working and living on benefits is insufficient to make people want to work derives from the perception of human behaviour that underlies ‘public choice’ theory. Such thinking takes little account of the large number of people who remain in or seek employment despite the fact that their cash in hand situation, compared with surviving on social security, is not substantially improved by working. It ignores the much of the sociology of work research and assumes that the poor have to be compelled if they are to be productive. Most beneficiaries have only the vaguest idea how the tax and social security combined withdrawal rates operate. And most categorical combined tax/benefit withdrawal rates are so high that they create for many a financial disincentive to part-time work which, in turn, leads governments to compel people to take part-time work on threat of loss of all benefits. This is a very inefficient way to construct social policy. With a Basic Income there is always a financial incentive to work - the withdrawal rate is the tax rate - and is, as a result, known and easily

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calculated.

The fact that such arguments (about lesser eligibility, the poor's fecklessness, the associated need for coercion and the importance of increasing the huge differentials in income between the owning and labouring classes) do little to explain less affluent people's behaviour, does not make them any less valued by current Government ministers. John Kenneth Galbraith ridiculed such arguments by pointing out that “It always boils down to the highly improbable case that the rich are not working because they have too little income and the poor because they have too much” (cited in Boreham, Dow & Leet 1999: 104). The recently elected New Zealand Labour/Alliance Government, with the active support of the Greens, has moved to slowly dismantle much of the infrastructure of compulsion that characterised the income support system of their conservative predecessors (*The Jobs Letter* 2000: 3).

**Basic Income**

Eighty years ago Dennis Milner (1920) was the first British person to articulate a fully elaborated (book length) Basic Income proposal. And from 1918 to 1922 he, Mabel Milner and Bernard Pickard campaigned for the introduction of a Basic Income (Van Trier 1995: Part 1). Milner wanted to ensure that the inadequacies of the British Poor Law system were overcome, to enhance national productivity, and to provide a more equitable base from which workers might negotiate wages. Many of the issues I am canvassing here are the same as those which preoccupied the Milners and Pickard. Milner did not see the introduction of a Basic Income as the be all and end all just one step on the way to a better life for all citizens.

Because Basic Income is a universal payment, people are always advantaged by any extra income obtained. The withdrawal rate is the income tax rate, which makes the cash-in-hand situation easier to calculate than a combined tax and income support withdrawal rate.

The ‘less eligibility’ argument, mounted by conservatives from the days of the Elizabethan Poor Law, suggests that unless welfare benefits are paid at a lower rate than would be obtained from paid employment, there will be a disincentive to work. Such thinking continues to dominate policy debates in Australia, New Zealand, Britain, Canada and the United States. When coupled with the economic fundamentalist mind set (which suggests that minimum wage legislation makes it increasingly difficult for
employers to afford to provide jobs for the least skilled), this has two impacts; minimum wages are kept low; and so, subsequently, are benefit levels.

Stephen Bell has recently (2000: 253, 268) suggested that:

In effect, those at the lower end are being asked to fund jobs growth through wage reductions with rising inequality as a key outcome. The implication is that societies confronted by the new economy, if they wish to retain some semblance of civility, must now confront distributional issues head on.

The problem with guaranteed minimum income schemes is that they perpetuate the postwar residual welfarist model of income maintenance and run a strong risk of creating a dependent and marginalised subgroup of 'recipients' vulnerable to the politics of downward envy.

He cites Pixley (1993) and Latham 1998 p. 203) in support of this assertion. Latham's analysis in relation to universal income guarantees and dependency is challenged by many, including Watts (1999; Tomlinson & Bleasdale 1999/2000). Pixley (1993) has drawn similar severe criticism (Watts 1995 a, b, 1994, Tomlinson 1995). To the extent that a GMI or a NIT is selective, it means that payments go only to the poor rather than to all citizens. There are traces of welfare thinking and the potential for some envy embedded in both GMI and NIT, but if that was a major concern both 'difficulties' can be abolished by choosing a universal Basic Income, paid to each individual, as the form of income guarantee.

Van Parijs (1992b: 229) claims that because a Basic Income is paid irrespective of all other sources of income, it can be used by those who desire work as a wage subsidy; yet, because it provides sufficient income on which to live, it does not compel any potential worker to work under conditions which that worker finds unacceptable. He concludes: “Whereas a rising means-tested benefit makes it increasingly difficult for unskilled people to find a job, a rising basic income makes it increasingly feasible.”

With the qualification that there may be some jobs offered in any country which are so unsafe and poorly remunerated that no one in their right mind would take them,
forcing people to take such jobs by threatening the removal of benefits is unconscionable. If the intention of those who promote categorical benefits which demand work readiness is to force workers to take all available jobs then this aim might more efficiently be achieved through a Basic Income than by the enforcement of less eligibility. The essential argument here, as Milner foresaw in 1920; 81 is:

there is no way imaginable of compelling willing work, which is the only efficient work. Much the most important thing to do in the elimination of slackers is to make sure there is no advantage in being one....the only way out of the difficulty that has no loopholes is to pay an existence allowance to everyone.

The categorical benefit approach results in an inordinate invasion of privacy in the lives of applicants for unemployment benefits. The imposition of 'mutual obligation' and other stigmatising practices all have to be financed from permanent residents' taxes. If the aim is to ensure that all job vacancies are filled, the provision of an unconditional Basic Income has the capacity to do that without compulsion. This would be both just and efficient.

World-wide the major problem facing advanced economies is too many workers chasing too few jobs (Rifkin 1994; Ormerod 1994; Gorz 1999). Stigmatised, selective, targeted, categorical welfare payments coupled with 'mutual obligation' and other compelled activity scenarios are tackling a problem -the trouble is that they are tackling the wrong problem.

A Basic Income, because it provides a known financial advantage for every extra dollar earned, abolishes both poverty traps and work disincentives (Lerner, Clark & Needham 1999: 20-21). As Gorz (1999: 85, italics in original) claims: “The universal, unconditional grant of a basic income is, therefore… the best instrument for redistributing both paid work and unpaid activities as widely as possible.”

It seems absurd for economic fundamentalists and the current conservative Coalition Government to claim that the mode of production has to be deregulated for the sake of 'efficiency' but that the system of welfare redistribution should be increasingly regulated. The existing targeted categorical income support system would, if continued, move effectively towards a charity-based benefit determination. As Castles suggests (2001: 29): “the McClure Report will complete the process of tearing down the edifice of Australia’s distinctive welfare state. What will remain will be a system of mean,
discretionary and morally charged benefits, wholly inappropriate to an advanced democratic nation.” The Minister who commissioned the McClure Report is on record as saying (Newman 1999: 9): “Simply providing payments to everyone who fits into a particular category fails to recognise the different capacities and potential people have to contribute to their own future.” This is the height of inefficient supply of benefits.

Conclusion
Efficiency arguments which can and should be mounted in support of an unconditional Basic Income include the following:

¥ A Basic Income requires the least interference in the lives of citizens.
¥ It supplies all permanent residents with equal assistance.
¥ It is the most inclusive form of income support payment and the most secure, thus enhancing citizenship.
¥ It provides sufficient income to allow the possibility that people will explore their creative capacity.
¥ It removes many of the obstacles to a reinvigoration of the industrial, technical and computing infrastructure.
¥ It allows the State a fuller understanding of the impact of its other social wage policies.

However, a Basic Income is just that - an unconditional universal income guarantee. It delivers an income floor without interfering with productivity. Its withdrawal rate on earned income is easily understandable, as compared with the combined income tax and benefit withdrawal rate of selective systems such as a GMI or NIT. It is a vast improvement on categorical selective social services. It is an advance on all social insurance and private provision schemes which invariably result in the 'individualisation of risk' (Lerner, Clark & Needham 1999: 11) and as a result create a 'do it yourself welfare state' (Klein & Millar, cited in Page 1998: 307).

End Notes

1. The principle of less eligibility was an integral part of the poor law administrations England from 1601 until the early 20th Century was designed to ensure that what ever assistance was provided via the welfare system was less than could be obtained from working and was provided in a demeaning manner in order to discourage people
applying for welfare relief. The process of determining, who would be assisted and who would be refused, divided applicants for assistance into the worthy and unworthy poor.

2. Categorical benefits, in the Australian Social Security system, are paid to poor people who apply and are regarded by officers of Centrelink as meeting specific eligibility requirements: eg. Sickness Benefits are paid to people who would be eligible for Job Search or New Start unemployment payments apart from the fact that they have a temporary disabling medical condition.

Selectivity refers to the imposition of income and asset tests.


6. Basic incomes have the capacity to provide a wage subsidy to employers because some of the wages which employers have to pay in order to sustain workers are paid for by the State. This was recognised by Milner as early as 1920. Such a phenomenon is not unique to Basic Income it occurs with regard to many aspects of the social wage. For instance, Kewley (1980; pp 90-95) notes Child Endowment was seen in the 1940s as replacing part of the Basic Wage.

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