

## [A Support Income System for Australia](#)

### **Introduction**

Why?

Why is Australian society immune to the need for social reform to accompany economic reform?

Why is Australian society accepting so readily increasing inequities in income distribution, continuing high levels of unemployment exacerbated by so-called early retirements through retrenchment, and creation of a new social class without hope?

Why is it that our political leaders have so eagerly accepted economic progress, and so deliberately avoided social progress? Economists are no longer advisers, but drivers - no longer advisers of policy directions but determinants of policy - both economic and social policy.

Why is it that at a time of pressing need for social reform to counter the ill-effects of economic reform there is no political desire to consider such reform, and there is no social institution seeking to introduce such reform?

Why, for example, is there no social support, no economic support, and no political support for some significant change to our system of income support and redistribution to help offset the income distribution changes arising from economic reform?

Why is there no social responsibility for the effects of continuing high unemployment and underemployment advocated or willingly accepted by economists and politicians?

These and other questions come to mind as I reflect on my relatively unsuccessful efforts in recent years to promote what I consider a significant and relevant social change - the introduction of a universal income support system. (Reflecting is a pastime I seem to do more and more as age slows the mind!)

For example, can this lack of success be attributable to a failure to keep up with the times? Is there a generation gap I have failed to bridge? Is it a case of looking back because I like what I see, rather than looking forward because I don't like what I see? Is it a case of trying to reinstate past values rather than upgrade present values? Is it a case of promoting the past rather than promoting a vision for the future?

There is always a danger that too much emphasis on the past can lead to rejection of the past, and learning from the past can be seen as living in the past. Looking back on the numerous papers and newsletters and submissions prepared for OASIS-Australia, and even back to the thesis which formed the basis of the book "Unemployment Forever?", I wonder whether too much emphasis has been placed on what has been, rather than on what can be.

Preparation of the recent and still unfinished series of papers "*1999 and Beyond, What does the future hold for Australian Society?*" brought these speculations to a head. I know that past experience has influenced my desire for change, but I also know and accept that things have changed. The political environment has changed. The social and economic environments have changed.

Should more emphasis have been placed on the future - i.e. on the role of a universal income support system in a new social and economic environment? Could this have been achieved - the promotion of one single proposal to help solve a range of social problems - without tiresome repetition? Are there any social concepts, any social values, from the past which can be incorporated in our vision for the future?

### **Universal Income Support**

Universal income support in various guises has been under consideration for a number of years. It was suggested by the Henry George League in the 1920's, and by Cole and Mead in Oxford in the 1930's. The concept was given a push along by Milton Friedman, with his principle of Negative Income Tax, and Lady Rhys-Williams, with her proposal for a Social Dividend, in the 1940's. In Australia the most notable proposal was the Henderson proposal for a Guaranteed Minimum Income (GMI). This was a major recommendation from the Royal Commission into Poverty, established in 1972 under the chairmanship of Professor Ronald Henderson.

In all these proposals the "universal" nature of the income support was qualified by being directly or indirectly subject to means test. Negative income tax, for example, is directly subject to means test. i.e. the level of income support (negative income tax) is determined after assessment of personal income. The social dividend proposal, on the other hand, envisages payment to all, but the income support is "clawed back" from those not in need through the taxation system. The income support is indirectly subject to means test through the income tax system, and requires very high rates of income tax. The Henderson proposal for a GMI embraced aspects of both negative income tax and a social dividend.

In the late 1970's, with an economic and technological environment embracing high levels of unemployment, there was an awareness by proponents of universality that existing proposals for means tested universal income support were not appropriate. It was recognised, and is now widely accepted, that means testing of income support leads to disincentives to work, and to welfare dependency.

This awareness of the inherent weakness of means testing income support led to studies into the viability and practicability of delivering universal income support free of means test.

Non means tested universal income support at a level sufficient to provide a basic standard of living would be enormously expensive if it were to replace social welfare transfer payments and be additional to existing personal income. Such a proposal would be financially and politically unacceptable. There was an obvious need to develop proposals which could be financially viable and administratively practical.

Two such proposals were developed, based on two quite separate approaches.

**In the UK** a proposal was developed by the Citizens Income Research Group (CIRG), [previously the Basic Income Research Group (BIRG)], for a "partial" universal income, i.e. a universal income less than sufficient to provide a basic standard of living, but one which would be financially viable without very high rates of income tax. Although it would require some topping up in the early years, it is envisaged it could grow to a realistic level. This proposal would be administratively simple to introduce, and has received support in Europe through the Basic Income European Network (BIEN).

**In Australia** a proposal for a universal support income free of means test, and at a level which would provide a basic standard of living without high income tax rates has been developed by the author of this paper. This proposal was the subject matter of a Master's Thesis and a book entitled "*Unemployment Forever? or a support income system and work for all*". In this proposal an additional principle was introduced - the principle that the support income is to be a replacement for part or all of present income, both personal and transfer income, and not additional to existing personal income.

Incorporation of this principle may lead to greater administrative complexity, but the principle has three quite distinct features which are relevant to today's economic and social environment.

**First**, it retains to a large extent the existing relationships between the levels of personal and transfer incomes. e.g. the current relationship between the single social security pension rate and average weekly earnings.

**Second**, it enables savings in labour costs, including on-costs, which accrue from the reductions in earned incomes to help offset the overall costs of the support incomes.

**Third**, it enables the support income to be seen as a replacement for income foregone. All people in receipt of income, both personal and transfer income, will have a reduction of income in exchange for receipt of the support income, thus creating a right to receive the income. The existing attitude that one person's welfare benefit is another person's income tax should disappear. People may also elect not to seek additional income from employment without creating any additional cost to the community. The concept of the "dole bludger" should disappear.

The question now being put forward is why proposals incorporating the concept of a universal support income system, free of means test, have not received wider consideration in Australia. In the UK and Europe, for example, there are research groups with strong academic support and philanthropic financial assistance, and in New Zealand there is also academic support for the research group Universal Basic Income New Zealand (UBINZ). In Australia any academic or political consideration of universality does not appear to have advanced beyond the negative income tax proposal.

## **Why has universal income support lacked acceptance in Australia?**

Why is it that, unlike many other nations, Australia has so far failed to give even token support to the consideration of a universal system of income support?

Admittedly, in spite of our alleged willingness to innovate and experiment at the individual level, there is a reluctance at the higher political levels to innovate or to introduce change. Even for proposals for relatively simple policy changes there seem to be two requirements that inhibit or prevent innovation. First, changes must be subject to evaluation via some form of economic modelling. Second, changes must have been tried somewhere else in the world.

However, the reasons for our reluctance to consider an alternate system of income support must lie far deeper than just a basic resistance to change. There must be strong resistance to move away from what is perceived as a sound and comprehensive system based on targeting and means testing despite its obvious weakness in dealing with the social problems arising from continuing high levels of unemployment and the reality of an ageing population. There must be some reason why those in the community who are or who should be most concerned with the social effects of our current economic and technological environment are not prepared to consider moving to a system more in tune with present day needs.

Is it because universal income support tends to revive past social values such as equity and equality, and a fair go for all, (yes, even mateship), and in the industrial arena "a fair day's work for a fair day's pay"? These values are contrary to today's economic values.

Is there really a generation gap - or even a two generation gap?

In the area of industrial relations these changes in social values are most apparent as we grapple with the major problem of entrenched high unemployment and underemployment. Consideration of one aspect - employer responsibility - may help to illustrate whether there is a case to answer for failure to bridge the generation gap.

Is universal income support a proposal for the past, or is it a proposal for the future? Is it a proposal that could have created greater social equity in the past, and hence one or two generations too late, or is it a proposal that will help to create greater social equity in the future? Is it really a proposal that can replace economic greed with social fairness? And if we do look back are there social values which have been lost but are worthy of reclaiming? These are the questions the following comments may help to answer.

### **Employer Responsibility**

What is the responsibility of an employer in regard to his/her employees?

There are certain responsibilities laid down in legislation or regulations. For example, an employer must provide a safe working environment free of discrimination, and must comply with specific health, welfare and safety regulations which may vary from industry to industry. There are statutory minimum standards, and employers who cannot comply with these standards will ultimately be unable to employ labour.

Likewise with wages and employment conditions. There are minimum standards set down in industrial awards or agreements, and employers must comply with these standards or ultimately be unable to employ labour. Times are changing, however, and in the establishment of these minimum standards changes are occurring.

With wage rates, for example, the President of the Arbitration Court in 1907 set down principles which were subsequently incorporated in federal and state industrial awards in the form of a basic wage. Initially this was a wage sufficient to provide a reasonable standard of living for a family of two adults and three children. This principle was modified in 1921 to allow the capacity of industry to pay to also be taken into account, thus initiating a gradual shift away from the principle of a needs based basic wage. In 1967 The Conciliation and Arbitration Commission completed this shift, abolishing the basic wage as a component of award rates of pay. Wage rates were to be based on the capacity of industry to pay, not on the needs of employees and their families.

[For further reading: *UNEMPLOYMENT FOREVER?* Chapter 4, The Concept of a National Basic Wage.]

As the principles of wage fixation changed so too did the obligation of employers.

With a needs based basic wage as a minimum standard incorporated in all award rates of pay there was an obligation on employers to pay all full time employees a reasonable living wage. There was an obligation for employers to ensure employees received a wage sufficient to provide a reasonable standard of living.

This obligation no longer exists. This obligation ceased in 1967 with the demise of the basic wage related to need. There is no longer a needs based component of award wage rates. For employers the obligation to comply with award standards remains, but the obligation is to comply with award standards based on economic, not social considerations.

This decision in 1967 heralded a significant change in the industrial relations scene. (A change supported at the time by employers and employees alike.) For this change introduced for the first time wage determination based entirely on market principles, with rewards going to those with the greatest bargaining strength.

The relationship between employers and their employees gradually moved from one of pastoral care to one of commodity trading.

Employment, unemployment and underemployment also became significant factors in employer-employee negotiations. With low unemployment in the late 1960's and early 1970's employees, through their trade unions, were able to successfully bargain for high wage increases. As the tide turned, so did the relative bargaining strengths of both parties. Today we see the outcome of a protracted period of high unemployment and underemployment, with reduced union power to negotiate on behalf of workers, and reduced power to represent workers through falling membership.

In the past decade there has also been a move towards a more decentralised industrial relations system, with emphasis on collective bargaining and industry agreements, and more recently individual workplace agreements. More and more employers are now able to establish wage rates and employment conditions individually or collectively with employees. (still subject to a small number of specified industrial standards) More and more employers are now in the position to negotiate wage rates and conditions in line with their overall obligation to themselves or to their shareholders to maximise profit.

More and more employers now have an obligation to establish the lowest wage rates possible.

Government policy today is to build on this obligation by strengthening the bargaining position of employers and by weakening the bargaining position of employees.

The bargaining power of employers will be strengthened through deregulation of the industrial relations process, through emphasis on individual rather than collective bargaining, and through policy changes such as exempting small business from the provisions of unfair dismissal legislation. At the same time bargaining power of individual workers will be weakened by measures such as reducing the ability of trade unions to advise or represent them, limiting their power to bargain collectively, and tightening the eligibility conditions for unemployment benefits in the event of resignation.

In this way government hopes to increase profitability (and thus economic growth), and to increase employment by reducing the cost of labour. Unemployment will remain high, however, to counter any inflationary trends that are created through increased economic growth. The bargaining power of workers must remain low.

What would be the effect of a universal system of income support on these procedures?

These government decisions are driven by economic principles and practice - not by social considerations. With government seeking certain outcomes the playing field for the bargaining process is tilted in favour of employers. There are no provisions to help offset the social effects of the inevitable result of lower wages and conditions. Indeed a "ripple" effect will occur as workplace agreements are negotiated and renegotiated.

A universal income support system, free of means test, would have a significant effect on the bargaining process, allowing government to achieve its objectives of higher economic growth and lower unemployment without the confrontationalist approach now being adopted.

**First** it would help to level the playing field for the bargaining process by providing greater financial security for

employees throughout their lifetime. This individual security would help to compensate for the loss of collective support from trade unions or fellow workers.

**Second**, it would remove the need for reducing labour costs to increase employment. As demonstrated in other papers the introduction of a support income system would encourage greater sharing of the available work through wider acceptance of more flexible part time and casual employment.

**Third**, it would help redefine the obligation of employers by placing more emphasis on employee relationships. It would help move towards the obligation of pastoral care which was so apparent in the post-war era through to the 1970's.

A universal system of income support is a system for today. It is also a system for reclaiming some of the social values from the past.

There is no generation gap to bridge.

### **Why is there resistance to change to a new system of income support?**

There is no doubt that in Australia there is political resistance to changing to a new system of income support. In fact it is doubtful whether the proposition is even discussed or considered. This reflects the views and attitudes of the main players in this area - the social profession (i.e. the social work and social policy academics and practitioners), and economists at large, including labour market and social economists.

Why do these groups oppose universal income support?

**The social profession** has a history of support for targeting and means testing, the basis of the Australian system of income support. Since 1945 this has been a most comprehensive system, probably reaching its peak in the 1960's when the country was still under the influence of Keynesian economic theory and practice, and an unemployment rate of less than 1% was regarded as achievable. These were also times of economic cycles with high and low unemployment. There was an expectancy that high unemployment was a temporary phenomenon, and unemployment benefits were regarded as temporary relief pending employment opportunities.

The social profession has twice rejected consideration of universal income support.

In the 1970's the profession successfully opposed the introduction of a GMI scheme following intensive study of the Henderson GMI proposal. This was despite the fact that the existing income support system in Australia had many of the characteristics of a GMI scheme - i.e. all people assessed as being "in need" were eligible for a common level of support and subject to a common means test.

The Henderson GMI proposal was in fact a warning. This proposal arose out of the Commission of Enquiry into Poverty, a commission appointed because of government concern over the extent of poverty in Australia. This was the time when cyclical unemployment was giving way to continuing unemployment, and Australia was faced with long term unemployment, and long term unemployment benefits.

This changing economic scene prompted a review of Australia's social security system. In 1986 the then Minister for Social Security, Brian Howe, established a review with a social work academic, Associate Professor Bettina Cass as Consultant Director. This appointment gave the social work and social policy academics and practitioners representation in the review process. It also ensured their collective support for the review recommendations.

Again the social profession rejected universality.

In her issues Paper No.4 (1988) for this review, entitled "Income Support for the Unemployed in Australia: Towards a More Active System", Bettina Cass set down the ground rules for future changes to the income support system for the unemployed. This report recommended changes to the testing for unemployment benefits to make them more closely linked with labour market programs, paving the way for more stringent activity tests. These were introduced in the 1991 Social Security (Jobstart and Newstart) Amendment Bill, and more recently the Work for the Dole scheme. Acceptance of this policy direction has also led to the "mutual responsibility" concept promoted by the Blair Labor government in the UK and now used and misused by both major political parties in Australia.

The social security review in the late 1980's looked at symptoms, not causes, and the social profession is now committed to the outcomes - continuing unemployment, continuing income inequality, continuing poverty and social isolation. The only recourse is to try and ensure sufficient funds are allocated to help relieve some of the misery, and to apply the art of the social work profession to targeting and means testing financial support. Hence their interest in the current taxation debate.

**Economists** likewise reject universality, but the reason lies more in the professional rigor of their principles and practice. For example, economists can accept means tested income support for the aged, the infirm, and the disadvantaged. There is sufficient professional latitude to permit social concerns to influence individual attitudes and beliefs.

In relation to the able-bodied, the unemployed, however, there is not the same professional latitude. Economic theory accepts that in the labour market there must be some unemployment. Economic theory declares that there is a "natural" rate of unemployment - the "non-accelerating inflationary rate of unemployment" - and to reduce unemployment below this rate would be inflationary.

Economic theory also requires a labour market without impediments - and universal income support could be seen as an impediment to a free market in much the same way as prescribed minimum standards and values in a regulated market.

These are economic imperatives - unemployment as an economic tool, and a deregulated labour market - which must be accepted in principle by all economists. It may be argued that there is a case for economists with a conscience to move outside these two principles. After all it was a highly respected economist, Milton Friedman, who originally promoted the concept of a negative income tax system which, through adoption of a 100% reduction, would create a severe disincentive to work. However, professional rigidity does inhibit such freedom of thought.

## **Conclusion**

Small wonder there is very little, if any, political support for a universal income system. There is no pressure from the social profession to consider such a reform, there is no pressure for putting social needs ahead of economic needs, and there are sufficient economists in each party to ensure policy conforms to economic principles and practice.

Political parties have adapted very well to the economic imperatives. There is a remarkable sameness about their individual policies, reflecting the sameness of their ideologies.

Political parties have also accepted the principles of a free labour market - the answer to high unemployment is to be found in the basic market principle of increasing demand by reducing the price.

Adherence to these economic principles also means there is a "floor", a minimum rate of unemployment below which the rate cannot fall. This is the natural rate of unemployment. A recent Reserve Bank study suggests this could be between 5.5 and 7 per cent, lower than estimates by many other economists who suggest it could be over 8 per cent.

**Is this the best that adherence to economic policy can provide?** Is this the best that reducing the price of labour can provide?

If this is the best that can be provided by free market forces, then it is also the best that political policy making can provide. No political party in Australia can have as an objective an unemployment rate lower than the natural rate.

With this as their best, there surely is a case for further reform. There is a case for further reform which extends beyond economic reform to social reform. There is a case for greater sharing of work, and this opens the way for consideration of universal income support.

Universal income support is not a proposal from the past, but is truly a proposal for the future - a proposal which extends beyond the boundaries of rigid economic theory, and a proposal which extends beyond the boundaries of means tested income support.

The sad part is that it is also a proposal which extends beyond the boundaries of our current political vision.

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[Introducing a Support Income System Part 1](#)

[Back to Home Page](#)