

## [Introducing a Support Income System - Part 3](#)

*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.....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. A McDonald April 1999 1*

### **Introduction**

In the earlier papers - Parts One and Two - published with the February and May newsletters respectively, the focus was on the apparent inability to gain wider public acceptance for the concept of a support income or basic income system. Why is it so difficult to gain political consideration, and why is it so difficult to develop a social movement focussed on the seemingly obvious and apparent merits of such a system? In these papers the approach was to question why an income support system with "seemingly obvious and apparent merits" is failing to gain wider community acceptance.

In this paper attention will again be focussed on the same question, but the approach will be from a different direction, challenging some of the fundamental notions of universal income support. To what degree is the failure to gain wider acceptance attributable to a failure to gain wider understanding of the social benefits of universal income support or to a failure to understand exactly what is a support income or basic income system? The appropriate starting point is to ask the question - "what exactly is a basic income or support income system"?

### **Definition**

It is very easy to state and restate a definition incorporating the fundamental principles of an income support system which is universal and unconditional. It is also very easy to state and restate how such a system can help reduce unemployment, reduce poverty, reduce the divisions in society, and to contribute in numerous ways to the development of a more cohesive and supportive society. These are all worthwhile social objectives extremely relevant in today's economic environment, and especially as the influences of globalisation and technological change continue to unfold. But while there is a view that the present system, although not perfect, can help achieve these aims, perhaps in a less efficient manner, there is a danger that the introduction of universal income support can be seen as overkill, or of using a sledgehammer to crack a nut?

Community acceptance requires more than an understanding of the benefits to be achieved. Community acceptance also requires an understanding of the reasons for the proposal in the first case - an understanding of the problems the proposal will help to resolve and an understanding of why it is claimed that these problems cannot be resolved within the framework of existing social and economic policies. It is widely accepted that social problems do arise from the economic policies which drive the political processes in a capitalist society. There is also wide spread acceptance that many of these social problems will require a social response. In the labour market, for example, there is acceptance by many, including economists, that the social problems arising from the depression of wage rates because of a lack of demand for labour are best resolved through the welfare system rather than through manipulation of the labour market. Development of the concept of a support income or basic income stems largely from this acceptance, and from a belief that universal unconditional income support will provide a more efficient resolution to this and similar problems.

### **Is universal income support a welfare response?**

Is a proposal for a support income or basic income entirely a social response, and hence by implication a welfare response? Does justification for consideration of a support income/basic income system depend upon welfare considerations? Or more importantly, is there a community perception that this is so, and that support income/basic income proposals are proposals for a better welfare system? For if this perception exists, then the way is open for questioning the need for a different income support system, or more fundamentally to question whether in fact a proposal for a support income/basic income is a proposal for a better welfare system?

How do we define "welfare"?

Professor Sheila Shaver, Acting Director of the Social Policy Research Centre (SPRC), University of New South Wales, in the May 2001 Newsletter, follows consideration of "passive welfare" with the introduction of three other conceptions of welfare. 2

- a. The concept of welfare as a social right of citizenship, as argued by T H Marshall. "*Marshall believed that the purpose of modern welfare was to enable those in need of help to remain full participants in the social community.*"
- b. The concept of welfare as compensation for diswelfare. "*In the 1970's Richard Titmuss argued that welfare served to compensate those who are adversely affected by economic growth and social change.*"
- c. The concept of welfare as a gift exchange among strangers. "*Titmuss also argued that welfare was part of a system of redistribution among citizens according to need.*"

The common factor in these conceptions, and indeed in any current definition of welfare, is the provision of monetary or other assistance to those assessed as being in need, financed by the transfer of income from those who have the ability to contribute. The essential elements are the identification of those in need, [targeting], the assessment of the degree of need, [means testing], and the transfer of funds through the taxation system. Then there are optional extras which can be considered, including the introduction of conditions to determine eligibility (mutual obligation comes to mind), but these are political rather than welfare considerations.

A system of income support which is based on targeting and means testing, such as the system existing in Australia today, fits neatly into the current definition of welfare. In this way income support becomes recognised and accepted as a welfare measure, and as an integral part of our social policy. To suggest a different form of income support can be seen as suggesting a different welfare system, thus leading to misconceptions and needless community concerns.

### **Universal income support is not welfare**

A support income or basic income system which is universal and unconditional simply does not meet the basic criteria of a welfare system of income support. There is no identification of people in need. There is no transfer of income based on assessment of need.

To the extent that income support is accepted within the community as an essential element of welfare policy, (and in Australia the present system of income support is certainly seen as an essential element of welfare policy), a support income or basic income system cannot be promoted as an alternative or "better" system of income support.

Also, to the extent that national social policy is accepted as being based primarily on welfare policy, any proposal for an income support system which cannot be seen as an integral part of welfare policy cannot be promoted as a social solution to social problems.

In the light of these conclusions, a major shift in emphasis may be required, leading to the question raised early in this paper - "what exactly is a support income or basic income system" - or more specifically what is the objective of a support income or basic income system?

### **Income distribution and income inequality**

The distinction between universal income support free of means test (as proposed by the support income/basic income approach) and means tested income support (developed within the framework of welfare policies) is related to the stage at which the income support is provided.

Income support provided within the framework of welfare policies is essentially a redistributive process. The income support is provided after assessment of existing incomes, with the level of support determined in relation to the assessed level of need. Universal income support, on the other hand, is a distributive process. The income support is provided before the assessment of existing incomes, and has no relationship to "need".

Economists recognise that in a market economy some degree of income inequality will emerge. In their basic textbook for economics, suitably titled "Economics", 3. Jackson, McIver, McConnell and Brue state: "*..the basically individualistic environment of the capitalist economy is more than permissive of a high degree of income*

*inequality*". p.842

They also point out that "*the egalitarian debate has produced a wide range of responses and positions*", and go on to mention arguments for and against income inequality.

In support of more inequality - "*The basic argument for more income inequality is that it is essential to maintain incentives to produce output and income*". On the other hand, support of greater equality was illustrated by example, concluding that "*Greater income equality has moved the economy closer to the goal of maximising aggregate satisfaction*" p.844

Income support based on redistribution of incomes has a capacity to move toward the welfare objective of "helping people in need", and a capacity to move toward the economic objective of "maximising aggregate satisfaction". However, there are limitations. There are political limitations based on community attitudes and perceptions, and there are economic limitations based on the fear of diminishing incentives to "produce output and income".

### **Income support objectives**

If the welfare objective of income support is seen as "helping those in need", then this is best served by the simplest and most comprehensive form of income support - a guaranteed minimum income scheme (GMI). Negative income taxation is one form of GMI. In the 1970's when unemployment was low Australia did enjoy a "de facto" GMI scheme with common means testing and levels of benefits. However, because of the political and economic limitations, the income support system has changed to what can now be described as a highly discriminatory and conditional system. This change reflects not only the community attitudes and perceptions and the economic fear of diminishing incentives but also "the basic individualistic environment of the capitalist economy". In this environment, and with an income support system based on redistribution of income, there is now a high degree of incompatibility between welfare and economic objectives. This degree of incompatibility can only grow as the economic influences of globalisation and technological change continue to shape our political processes.

Can a universal system of income support based on distribution rather than redistribution of income help to reduce this incompatibility between welfare and economic objectives? Is there justification for claiming that proposals for a support income or basic income will help reduce this incompatibility?

### **Justification for universal income support**

Justification for consideration of universal income support relies heavily on two basic factors.

First, the welfare objective of "helping people in need" must be expanded to incorporate the objective of "reducing the number of people in need". The objective must be expanded, for example, to include both the alleviation of poverty and the prevention of poverty.

A system providing universal income support prior to assessment of incomes does not take into account the needs of individuals - the rate of income is a common rate to all, irrespective of other income - and therefore contributes little to helping people in need. However, if the universal income is sufficient to provide a basic standard of living to every citizen, then the system will significantly reduce the number of people who will be assessed as being "in need". In short, means tested income support is designed to alleviate poverty, whereas universal income support is designed to prevent poverty.

Second, the economic objective of maximising aggregate satisfaction can be pursued without fear of the disincentives attributable to means testing and the process of redistribution. This will require that the income distribution can be financed without recourse to higher personal income taxation. Existing proposals for support income or basic income demonstrate this requirement can be met. There are proposals which are financially viable without high levels of income tax.

Community acceptance of the financial viability of these proposals, however, is still difficult to achieve, and will continue to be so until there is a clearer understanding of the implications that arise from the move away from a principle of income redistribution to a principle of income distribution. There is a need to ensure that the concept of universal income support is not seen merely as a new or better system of income support carrying with it some of the prejudices and attitudes related to existing system. Attitudes such as "paying people not to work" and "encouraging single parents to have more children", for example, will be amplified if the support income system is

seen merely as one of removing existing means tests and conditions.

## **The principle of sharing**

Proposals for universal income support are not based on a welfare approach, but on a sharing approach - sharing part of national income equally amongst all citizens. There are significant and wide ranging social and welfare implications such as a more equitable sharing of the benefits of economic growth, including a sharing of the available paid employment, which are well documented and promoted. However, these implications will not be properly understood and accepted unless there is a clear recognition of the sharing approach, and this recognition begins with the title and introduction to the process. Use of the term "income support", for example, can be associated with welfare policies, as can titles such as support income or basic income. If the aim is to promote a concept based on a sharing approach rather than a welfare approach, then the concept must be clearly presented as such.

How can the concept of universal income support be presented so that it clearly and unambiguously represents a process of sharing national income?

I have on previous occasions likened the concept of a support income proposal to the concept of all Australians being shareholders in Australia, with the support income being a form of national dividend. This approach portrays the principle of a distribution of income regardless of other earnings, and helps move community perception towards the sharing rather than the welfare aspects, i.e. towards the sharing of national income and the sharing of the benefits of economic growth. This approach also helps to provide an understanding how with income distribution of this nature welfare benefits flow from the process of sharing national income, rather than the reverse which applies with income redistribution.

Describing, or even renaming support income or basic income as a national dividend, should help achieve greater community understanding and acceptance.

## **National dividend**

Introducing the concept of a national dividend extends the scope of application of the principles inherent in universal income support to a much wider group of nations.

A national dividend in the form of a support income or basic income sufficient to provide a basic standard of living sets the desired standard in terms of maximising the economic and social benefits to be obtained from the system. However, this will only be possible for those nations with the ability to finance such a system. A national dividend in this form, and at this level, should be seen as a standard towards which all nations should aspire.

The national dividend need not be in this form, or at this level, provided it adheres to the basic principles inherent in being universal and unconditional. The level of income, for example, can be related to "ability to pay", with a long term objective of raising the level to achieve maximum benefits. The national dividend need not even be in the form of a regular income, but as a quarterly, half-yearly or annual payment, thus allowing developing nations to introduce the concept at an early stage. All nations with the infrastructure in place to administer a register of all citizens and to facilitate payment and receipt of the dividend can introduce a national dividend in a form and at a level that is affordable.

In this way the concept of a national dividend introduces a much grander vision for the future. This concept enables the field of economics to embrace distribution of wealth in addition to the current emphasis on the creation of wealth, with the ultimate aim of a global national dividend enabling all people to share in the benefits of a global economy. International bodies such as the International Monetary Fund and the World Bank may see a role in helping provide the infrastructure for the poorer nations to achieve this global coverage.

There is a view that the future of capitalism depends upon the ability of capitalist societies to ensure the benefits of global economic growth are shared by all citizens. The introduction of a national dividend embracing the concept of a support income/ basic income can be seen as a move in this direction.

## **References:**

1 Allan McDonald, *Support Income System*, Paper following the Oasis-Australia Newsletter, April 1999

2 Sheila Shaver, Social Policy Research Centre, *May 2001 Newsletter*, p.3

3 John Jackson, Ron McIver, Campbell McConnell, Stanley Brue, *Economics*, McGraw-Hill, 4th Edition 1994,

---

*Allan McDonald*

for OASIS-Australia August 2001

[Back to Introducing a Support Income System Part 2](#)

[Back to Home Page](#)