Universal Income Support

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Universal Income Support Subject to Means Test

In most industrialised nations, and Australia is certainly no exception, there are significant social problems being exacerbated by "new age" economic policies and technological advances. There are the problems associated with an ageing population, for example, and there are problems associated with the greater flexibility in the labour market.

Despite concern about the increasing proportion of the population over the age of eligibility for an age pension there is no apparent desire to encourage older people to remain in the workforce. On the contrary, the emphasis of current political strategy appears to be to encourage people to retire even earlier through government support for superannuation cover. There is a conflict between encouraging older people to seek employment to ease the welfare cost and encouraging older people not to seek employment to reduce participation in the labour force. The unemployment rate is a very sensitive indicator for governments endorsing economic fundamentalist policies.

With the increased participation of married women in the labour force, and the consequent growth in the number of families with two working parents, there is now a greater demand for work of a casual or part time nature. As industry responds with more flexible working arrangements people dependent solely on employment income find that the only work available is for "less than full time" hours with "less than full time" pay. Underemployment has become a problem equally as severe as unemployment, but it is not recorded in any economic or political indicators.

These, and many more like them, are social problems calling out for social answers. But it seems that in Australia today we have two major political parties which are unable, or are politically afraid to develop appropriate social policies. Reliance on economic answers, or on political responses based on economic argument, is the easy way out - it certainly has short term electoral appeal. In the process, however, larger and more complex problems are being created on the way.

Yet these social problems are not insoluble. These social problems can be alleviated by appropriate social responses. They can be alleviated, for example, by a more pro-active income support system. They can be alleviated by a more pro-active system applicable to the whole of the community rather than the so-called active benefits system of the previous government, pursued with even more vigor by the present government, which was and still is limited to specific sections or categories such as the unemployed.

As previously highlighted, the existing selective income support system based on targeting and means testing has a negative approach to social problems, and is no longer appropriate. If we are serious about the extent and long term effects of the social problems facing us today then one avenue to consider is to change the present income support system to one more compatible with the current economic and technological environment, with the first step being to move away from a selective or categorical system to a universal system.

Universal income support

Income support provided without any categorisation or selectivity process to determine eligibility can be regarded as universal. With a universal system, eligibility stems from citizenship - it does not depend upon belonging to a particular category of people or a particular section of the community.

Advantages of universality

Why move from selective to universal means tested income support? Are there immediate advantages to be gained in addition to the long term alleviation of severe social problems? Two advantages are readily apparent - simpler and more efficient administration and removal of stigmatisation. Just how important these advantages are will depend upon the complexities and social acceptance of the existing system.

a. Simpler and more efficient administration.
The extent of the administrative benefit will depend upon the complexity of the existing system, and in Australia today this benefit can be significant. With the numerous means tests and eligibility requirements built in to the present income support system there is considerable scope for gains in administrative efficiency. However, these will come at a price. There is the question - are these differences in means tests and eligibility requirements considered to be too valuable politically to lose?

For example, the means test for unemployment benefits is far more severe in terms of withdrawal rates than the means test for age pensions, and the benefit is conditional on meeting certain tests which again do not apply to age pensioners, or for that matter other beneficiaries. These differences have been developed by successive governments who have determined, quite deliberately, that the means tests applying to others is far too liberal for unemployed people. (and in particular for young unemployed people)

With a universal system there would be a common means test for all - there would be no identification of people in categories. Governments would forego the opportunity to differentiate between categories and groups.

b. Removal of stigmatisation.

Eligibility for universal income support stems from citizenship, not from being classified as a member of a group needing help. Every citizen or permanent resident has equal eligibility, the level of entitlement being subject to means test. The extent to which this will be of advantage to the community as a whole will depend largely upon how income support for particular groups is now viewed within the community. The concept of the "dole bludger", for example, should disappear as there will no longer be a definable "unemployment benefit". Likewise, ill-feeling between groups because of differing means tests and conditions, or because of eligibility and ineligibility such as between aged pensioners and self-funded retirees, should also disappear.

c. Other advantages

Simpler and more efficient administration and removal of stigmatisation are two obvious and tangible advantages. There are others, in some ways less obvious and tangible, which far outweigh them in importance by offering long term alleviation of significant social problems.

One example is the uniting effect which flows from the universal nature of the income support. The uniting effect of a common form of income support for all citizens. This uniting effect will help to counter the divisive nature of categorical income support with a number of different means tests and eligibility requirements. With society becoming more and more divided in this new economic age, there truly is a need for some counterbalancing unifying measures. There is no doubt we need them.

Furthermore, there is implicit in any change from categorical to universal income support a recognition of the wider role for social welfare or social security, with greater emphasis on providing financial security rather than helping those in need. Greater financial security will be provided for the unemployed and the underemployed, for those working flexible hours, for older people wishing to work on a casual or part time basis, for those wishing to undertake vocational training - and so the list goes on. This is a new role for income support and one that cannot be provided by other than a universal system.

Universal systems of income support

The provision of universal income support is an approach which has been considered from time to time, and proposals have been many and varied, ranging from the Speenhamland Law system of guaranteed income support for families put in place in parts of England in the 1790's through to proposals based on a similar principle of a guaranteed minimum income, to negative income taxation and a social dividend, and to basic income and its derivatives.

These proposals differ in a number of ways. They differ according to whether the support income is directed to individuals and/or families. They differ according to whether the support income is to be provided to all as a demogrant or only to those eligible after assessment of incomes. They differ according to the level of support income. However, throughout all proposals there is the one common factor of universality. The income support is to be available to the whole of the community without categorisation of groups such as aged, invalid, disabled, widowed, unemployed, etc.
Proposals will also vary according to whether the income support is to be provided subject to assessment of income or free of means test. This is a fundamental difference. Many of the principles upon which proposals are based can be modified to achieve wider acceptance or agreement, but the principle of means testing cannot be modified. The proposed income support will be subject to means testing or it will be free of means testing.

As a first step, consideration will be give to three specific proposals for universal income support subject to means test. A second step, consideration of proposals free of means test, will follow in Part Four.

**Universal income support subject to means test**

As a general guide, where the universal income support is to be provided on the basis of a guaranteed level of income, whether as an individual or as a family group, then the proposal is subject to means test. In fact any proposal which provides income support on a family basis is subject to means test, as it takes into account the differing needs of families and individuals.

Proposals for universal income support subject to means test are basically guaranteed income proposals. Two such examples will be considered in this report, the Speenhamland Law - a system introduced in the 18th century before the age of centralised taxation systems, and negative income taxation - a system designed to use the income taxation process to administer the support incomes. A third proposal, a social dividend system, will also be considered. This proposal differs from the others by suggesting payment of a common basic income to all citizens irrespective of need, and then clawing back from those not in need through the taxation system - a proposal administratively different to negative income taxation but with a similar result.

1. The Speenhamland Law - A Guaranteed Minimum Income

The birth of the industrial revolution in England in the late 18th Century, and the implications of the Speenhamland Law of 1795 and the Poor Law Reform Act of 1834, are essential starting points for consideration of universal income support in this, the start of the 21st century.

A prerequisite for the growth of industry in England in the 1780's and 1790's was the establishment of a market economy, including a labour market. Land and capital were readily available, but labour was difficult to mobilise. This was a time of strong parish administration and the Act of Settlement of 1662 placed restrictions on the freedom of labourers to move beyond parish boundaries. Despite depressed economic conditions in rural areas industrialists found it difficult to recruit workers for their factories.

In 1795 steps were being considered to increase the mobility of labour from rural to urban areas to help meet the labour needs of the industrialists and facilitate the creation of a stronger labour market. However, in the same year the depressed economic conditions influenced consideration of some form of income support for distressed rural labourers, and the Speenhamland Law was introduced. As described by Polyani:

*The justices of Berkshire, meeting at the Pelikan Inn, in Speenhamland, near Newbury, on May 6, 1795, in a time of great distress, decided that subsidies in aid of wages should be granted in accordance with a scale dependent on the price of bread, so that a minimum income should be assured to the poor irrespective of their earnings. ... This was meant as an emergency measure and was informally introduced. Although commonly called a law, the scale itself was never enacted. Yet very soon it became the law of the land over most of the countryside, and later even in a number of manufacturing districts.*

The Speenhamland Law was the first large scale system of universal income support introduced in an industrialised nation. What started as a makeshift, temporary welfare measure ended up on a scale never envisaged by the justices of Berkshire, and unwittingly with an inherent weakness which was magnified as it extended beyond parish boundaries. The Law became a universal income support system means tested with a withdrawal rate of 100 per cent of income earned - the maximum disincentive to work possible with such a system. Coincidentally the Law was introduced in the same year that the Act of Settlement was repealed to facilitate a better mobility of labour and thus increase the supply of labour willing to work for wages.

In a nation trying to come to terms with the demands of industry in the early stages of the industrial revolution the outcome from the Speenhamland Law was quite severe. Polyani summarises the result of the Law as follows:

*Under Elizabethan Law the poor were forced to work at whatever wages they could get and only those who could...*
obtain no work were entitled to relief; relief in aid of wages was neither intended or given. Under the Speenhamland Law a man was relieved even if he was in employment, as long as his wages amounted to less than the family income granted to him by the scale. Hence, no laborer had any material interest in satisfying his employer, his income being the same whatever wages he earned; this was different only in the case standard wages, i.e. the wages actually paid, exceeded the scale, an occurrence which was not the rule in the countryside since the employer could obtain labor at almost any wages; however little he paid, the subsidy from the rates brought the worker's income up to scale. Within a few years the productivity of labor began to sink to that of pauper labor, thus providing an added reason for employers not to raise wages above the scale.

The Speenhamland Law was finally put to rest by the Poor Law Reform Act of 1834.

When considering other proposals, there are two lessons to be learnt from the saga of the Speenhamland Law which must be taken into account.

First, social and economic considerations should not be regarded as totally separate. Proposal to alleviate social problems should also take into account economic considerations, just as proposals to alleviate economic problems should also take into account social considerations. Proposals for universal income support should not be related to alleviation of need alone. **Universality is not merely a basis for providing relief for those in need, it is a basis for the prevention of need.**

Second, if the support income is to be provided subject to means test, then the withdrawal rate must be as low as possible to minimise the disincentive to work. It certainly must be lower than 100 per cent.

The Speenhamland Law was essentially a straightforward guaranteed minimum income scheme introduced on a regional basis, but which expanded rapidly to reach almost national proportions because it met a very real social need. It failed because it did not meet the emerging requirements of a new industrial age. As Polyani described it: **The Speenhamland system was originally a makeshift. Yet few institutions have shaped the fate of a whole civilisation more decisively than this, which had to be discarded before the new era could begin.**

2. Negative Income Taxation

There seems no doubt that if one were to assert that there is a generic proposal for means tested universal income support it would be negative income taxation - what Nicholas Barr describes as **the archetype of cash support conditioned on an income test.**

Despite widespread recognition of the weaknesses and shortcomings of means tested income support the proposal for negative income taxation appears to be accepted by some economists, perhaps because of the proposal's main advocate, or perhaps because of the statistical symmetry.

**First**, the main advocate of negative income taxation was Milton Friedman, a leading conservative economist. Although not the originator of the proposal, Friedman has been the main contributor to the promotion of negative income tax worldwide, commencing with his book Capitalism and Freedom, University of Chicago Press, 1962. His reasoning was as follows, as summarised by LeGrand and Robinson:

*Under the existing income tax there is a basic income below which no one pays tax (the allowance level). If someone has income above the allowance level, then they pay a certain proportion of the difference between their actual income and that level in tax. It would seem logical, therefore, to make the arrangement symmetric; that is, if an individual has income below the allowance level, then he or she should receive a certain proportion of the difference between his income and the allowance level in the form of a "negative" tax payment.*

**Second**, the statistical symmetry of the proposal must have some appeal to economists imbued with the honesty and integrity of statistical analysis. This certainly appealed to Milton Friedman, who was intrigued with the "symmetry" of the concept whereby the income tax scales were extended beyond the positive to the negative.

However, there are reasons for some misgivings.

**First**, just as in fundamental economic theory, there is no place in the Negative Income Taxation concept for equity. For example the formula for deciding the level of income support is an economic one - the taxation process. It has no relevance to the needs of an individual or of a family. It may be claimed that negative income taxation will
provide a safety net, but it cannot be claimed that it will provide a safety net of quality.

Second, the administration of a negative income taxation system would be a recipe for disaster. In principle such a system is income tested, and more specifically it is taxable income tested. How do we define taxable income? How long can it take to establish a person's taxable income? Certainly well into the financial year following the assessment. It sounds good to say that the application of a negative income taxation system will be based on an assessment of income, but in reality the application must always be in arrears, and not just twelve months in arrears. For a host of casual workers, contractors, small business operators, commission salespeople, etc. assessment of taxable income is a long, drawn out affair. Taxable income is not a suitable vehicle for the establishment of a level of support income.

Third, there is the reality that negative income taxation is a system of income support subject to means test, and it will reflect the inherent weaknesses of such a system. Certainly the withdrawal rate, or marginal tax rate, will be in line with the lowest income tax rate - a vast improvement on the existing marginal tax rate for the unemployed or for pensioners - but there will still be some disincentive to work created by the means test.

3. Social Dividend

A social dividend proposal incorporates a universal payment or demogrant to all citizens, replacing many social security pensions and benefits and additional to private income. This payment is then "clawed back" from those not in need so that the end result is similar to negative income taxation. The first proposal was advocated by Lady Rhys-Williams in the U.K. in 1942. This was overshadowed by the Beveridge recommendations which formed the basis of post-war social policy in the U.K. The proposal has two significant disadvantages.

a. The cost of providing the social dividend to all citizens additional to private income must be very high and difficult to justify when in many cases the principle is that the social dividend is being provided only to be withdrawn again through the taxation system. Although it may be claimed that the social dividend is paid free of means test, the payment is indirectly subject to means test through the payment of additional income tax.

b. Very high rates of income tax must be introduced to "claw back" the social dividend - rates of tax which would not be acceptable to the community.

The provision of a universal support income additional to existing personal incomes requires enormous expenditure by the state, to be financed by taxation. Very high income tax rates are required as the only recourse to prevent the rich and well-off retaining this income. It is in fact provided to these groups on the understanding that they are not permitted to keep it. The social dividend is a universal income, but it is not intended to benefit the rich and the well-off.

This has been the inevitable enigma for proposals based on social dividend principles. To retain the essence of universality it is necessary to provide support for those who do not need it, at considerable cost to the community. It is also necessary to withdraw this additional income quickly, the only avenue available being the income tax system. Very high levels of income tax must be introduced, which are difficult for the community to accept.

The next step

These examples highlight the social advantages that universal income support can introduce into the social welfare scene, and the potential they have to extend the role of income support beyond providing relief for those in need. Their weaknesses have also been highlighted - weaknesses which become apparent when economic as well as social considerations are taken into account. These weaknesses in all cases stem from the process of means testing. It is the process of means testing which reduces the economic efficiency of universal income support.

The logical next step in the search for a better system of income support must therefore be to remove the means testing process and provide income support free of means test. This will be the subject of Part Four of this series. In this part, proposals for universal income support free of means test will be considered - proposals which will demonstrate the great advantages, both social and economic, that can be gained by removing means testing.

These advantages are diverse and wide spread. It can rightly be said that it is not until a proposal for universal income support free of means test is seriously considered that the whole picture of the extensive and wide ranging
benefits of universality can be seen and understood. The objective in Part Four will be to complete this picture.

References.


2. Ibid. p.79


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