

Universal Income Support

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[Financing](#) Universal Income Support Free of Means Test

A system of universal income support free of means test which provides a support income for all citizens sufficient to maintain a basic standard of living does not come cheaply. The gross cost must be large.

(In Australia, for example, if the support income for an adult is to be at least equal to the basic single pension rate, which is a rate generally accepted as being sufficient to maintain a basic standard of living, then we are looking at an income at least equal to 25 per cent of average weekly earnings (AWE), or approximately \$10,000 p.a., and a gross cost in the vicinity of 28 per cent of GDP.)

The use of the term "gross cost" can be misleading, for this is the total cost of the incomes. What is more important, and more relevant, is the actual cost to the community, or the changeover cost from one system to another, and how the system is to be financed. There are a number of proposals which all differ in some way, unlike other systems of income support which have general application. A negative income tax system, for example, can be applied to any nation with an income tax system.

There is no standard design for universal income support which can be moved from one nation to another. Proposals must be custom designed to meet the requirements of individual nations, and include proposals which for financial reasons provide for a low, partial basic income in the short term. However, with all these varying proposals there is one common factor - the objective to provide every citizen with an unconditional support income free of means test sufficient to maintain a basic standard of living.

The proposal for a Support Income System for Australia, developed for Australian conditions and published in the thesis of that name, and in the book "Unemployment Forever? or a Support Income System and Work For All", was designed to meet this objective in the short term. This required the ability to meet two criteria considered essential for this purpose.

The first of these criteria relates to financial viability. The proposal should be financially viable to the extent that it does not require high rates of income tax to finance the support incomes.

Very high rates of income tax are not only socially and economically unacceptable, but reliance on the income tax process to finance the proposal introduces a degree of indirect means testing which would reduce the probity of the scheme. The social dividend proposal introduced in the UK by Lady Rhys-Williams in 1942 suffered in this way.

The Support Income proposal goes even further by demonstrating that it is possible for the support incomes to be financed by the savings, transfers and rearrangements created by the system itself. Despite the high cost of the support incomes, the actual cost to the community can be reduced to virtually no additional cost.

Overall, the financial considerations will demonstrate how a support income can be provided to every citizen, to every man, woman and child, without adding to the overall tax burden of the community. The support incomes can be financed through savings and transfers generated by the scheme, making a support income system for Australia financially viable. 1.

The Support Income proposal achieves this very low cost to the community by introducing the principle of the income support replacing part of existing incomes. The support incomes are intended to, and are expected to replace most welfare pensions and allowances. It therefore seems fair and equitable that, in the interest of maintaining existing relativities, the support incomes should also replace part of existing private incomes.

A support income system is a new concept incorporating the principle of replacement income for all rather than a mix of replacement and additional income. 2.

The part of private income to be replaced must bear some relationship to the welfare benefit replaced, and in the Australian scene this calls for a significant reduction of private income for replacement by the support income. An

adult support income at least equal to 25 per cent AWE calls for a reduction of income in percentage terms of at least 25 per cent, and perhaps more in after tax terms. If it is to be a flat rate deduction then in current values the reduction must be in the vicinity of \$10,000 p.a. after tax. (Little wonder it is claimed that a support income system does not come cheaply!)

Adoption of this principle of income replacement facilitates development of a proposal which can be seen and understood to be financially viable. The high reduction of private incomes, boosted by the on-costs applying to the reduction in wages and salaries, creates a large pool of savings, including labour cost savings, which can be directed towards financing the support incomes.

The second criteria relates to the potential benefits for society. A proposal for universal income support should be capable of additional development or refinement to increase the social good created by the system. **Universal income support should not be seen as an end in itself, but as a basis for further social development.** The economic and social benefits which may accrue from such a system are huge and wide spread, and the system should have the potential to maximise these benefits.

The potential for further social good is possibly the greatest single justification for universal income support, and is the feature which distinguishes it most clearly from all other systems including the present collection of means tested benefits. Means tested income support is a last line of support and leads to welfare dependency, whereas universal income support free of means test can be seen as a springboard for further action.

One area which offers immediate potential for providing significant economic and social gains flows from the principle of exchanging a reduction of income for receipt of a support income. These reductions of income create a pool of savings which must be transferred to help cover the cost of the incomes..

Within this pool of savings is the savings in labour costs resulting from the reductions in wages and salaries, and this includes the on-costs applicable to these reductions. These savings must be transferred to ensure financial viability. However, if the savings in labour cost can be increased while still retaining the integrity of the proposal, then employers can retain part of these savings and enable them to generate widespread economic and social benefits. In this way there is a potential to achieve significant benefits for society flowing directly from the support income system.

One avenue for increasing labour cost savings without diminishing the integrity of the system is through the superannuation system. Occupational superannuation in Australia lends itself to this proposal, for it has been designed to link two objectives which are basically incompatible, and one of these objectives can be adequately met by universal income support. The occupational superannuation scheme introduced within the last decade, and still subject to annual reform, links the economic objective of encouraging private savings with the social objective of ensuring an adequate income on retirement. Not only are these objectives incompatible, but the linking creates complexities and reinforces inequities.

It is inevitable that any scheme designed to encourage savings through state assistance will favour those most able to save, and no form of limitation or ceiling on the level of assistance will prevent this happening. Linking the encouragement of savings with the provision of retirement benefits means that state assisted retirement income also favours those most able to save. The role of the state has been extended beyond the provision of a safety net for retirement income to the provision of assistance for income and wealth related retirement income, thus raising the question whether this is an appropriate role for the state.

Providing life long income support free of means test will remove the need for the state to assist further in the provision of retirement income, and the role of the state will be clarified as one of ensuring all citizens are in receipt of a basic level of income throughout their lifetime.

Separating the two objectives of the existing occupational superannuation scheme could see a scheme developed specifically to encourage savings which could incorporate existing funds and employee/personal contributions. On the other hand, existing employer contributions would no longer be required, thus providing additional savings in labour costs sufficient for employers to retain a significant share of the total savings.

One other avenue for enabling employers to retain part of the labour cost savings is the **introduction of additional revenue from taxation** measures which are economically and socially acceptable. Income tax would not be an

acceptable vehicle for increasing taxation revenue, although some changes to the tax scales may be necessary to ensure equitable after-tax income reductions, and there may also be merit in considering separate tax scales for PAYE income and other income.

Taxation measures which could be considered are an Inheritance Tax and a Wealth Tax. These are not new proposals. They have been considered from time to time as being desirable in their own right, and would have considerable social acceptance. An Inheritance Tax system operated in all States for many years prior to the Bjelke-Peterson Government repealing the legislation in Queensland. Other states quickly followed suit. A third and more recent suggestion is the Tobin Tax, suggested as a levy on international financial transactions.

The proposal for a Support Income System for Australia did not take into account additional taxation measures such as these - the proposal was financially viable without additional taxation income. However, support for their introduction would certainly provide additional revenue to help achieve greater benefits from the system. This additional revenue could be applied to help ensure employers retain a significant portion of the labour costs savings, or alternatively it could be directed towards reducing the level of income replacement - a move which may have popular appeal and assist in gaining greater community acceptance.

One other taxation measure which needs to be considered and which is not to be considered as a finance generating measure, is the taxation vehicle to facilitate transfer of the labour cost savings from employers to the state to help finance the support incomes. The suggested taxation measure in the Support Income proposal is a turnover tax - suggested because it is a tax measure which is not related to profit, is not related to employment, and which does reflect economic growth.

Today the introduction of a GST has provided a taxation measure which could possibly meet the requirements. It is not related to employment, and it does reflect economic growth. Extending the GST from a value added tax to an expenditure tax could provide a suitable vehicle provided there was a suitable balance between the portion of labour cost savings necessary to finance the support incomes and the capacity of the expenditure tax to transmit these savings. Allowing employers to retain a significant part of the savings would ensure this balance could be achieved, and would also permit cost savings sufficient to ensure price stability.

Finally, when considering the financial aspects of universal income support one additional item must be considered - **indexation of the incomes**.

With a common entitlement based on replacement of income for all, there is no justification for maintaining the view that income support for some is financed by taxation paid by others. Every citizen has a stake in the welfare of the nation. All citizens receive an equal share of national income.

This concept could be further strengthened by relating indexation to the economic welfare of the nation. Indexing the support incomes to GDP, or in particular to GDP per capita, would introduce the concept of all Australians being shareholders in Australia. Provided the major source of funds to finance the support incomes was in some way related to economic progress, and reflected movements in prices and productivity, indexation based on GDP per capita would be financially sound.

In summary, a system of universal income support free of means test, with the income for an adult sufficient to maintain a basic standard of living, and indexed to GDP per capita, could meet the responsibility of the state to ensure the lifelong financial welfare of all citizens, and provide a vehicle for even greater economic and social growth, without any additional taxation burden for the community.

1. Allan McDonald, *Unemployment Forever?*, 1995, pp. 14-15

2. *ibid.* p.13

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