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# **Australian Workers and Unions Should Support Basic Income.**

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The journey to a full universal Basic Income is essentially the search for the answer to just one question: “How do we best meet the income support needs of all who find they are without the capacity to provide for themselves?” This paper will try to answer that question.

## **Introduction**

Australia has a federal system where the Commonwealth Government has responsibility for social security. Nationally social security started with age and disability pension legislation in 1908. Since then, with the exception of blind pensions and child endowment, social security payments have been means – or asset – (sometimes both) tested. Thus the system is categorical and selective rather than universal. The categories reflect the positive light in which the needs of chosen beneficiaries are held by the powerful. For example, widows with children have been paid since the mid-1940s but most unwed mothers were not paid social security until 1973. Since 1977 the Government has assisted all lone parents who meet the specified requirements.

Australians have been subject to increasing inequalities in income and wealth distribution during the last two decades due in large part to a general acceptance of economic fundamentalist ideas and government enthusiasm for deregulation and globalism. Michael Costello<sup>1</sup>, former Secretary of the Department of Industrial Relations, succinctly summed up the changes occurring in Australia when he wrote: “If you were hard up, you used to get a hand-up from government. Now you get the back of its hand.”

Under the previous Labor Government, low paid workers were compensated for declining real income from employment by increases in the social wage. The current conservative Howard Liberal Coalition Government recently elected for a fourth term and now with ‘control’ of both houses of the parliament has assaulted the social wage. The universality of Medicare (health insurance) has been weakened, the dental service for low-income earners abolished, and the social security safety-net has been undermined. The 2005/6 Budget outlined the Government’s determination to get single parents back into the workforce once their youngest child is at school. Likewise, it has reinvigorated attempts to move people off disability pensions onto unemployment benefits with onerous ‘mutual obligation’ activity requirements.<sup>2</sup> Since coming to office in 1996, this Government has undermined the dignity and rights of Indigenous Australians and asylum seekers.

Job insecurity has increased; the Government is determined to weaken the fair dismissal legislation. The officially recognised unemployment level has dropped below 6% but if people

who are underemployed, discouraged unemployed and disguised unemployed are taken into account the real level of unemployment is in the order of 12 to 18% of people of working age. Unemployment and the weakening of the social security safety net are real issues for low-income wage earners because people in the bottom 30% of income distribution are the ones most likely to experience periodic unemployment interspersed with short stints in casualised, part-time and precarious employment.

Captains of industry are gaining disproportionate rewards – the ratio between Chief Executive Officers' salaries and those of workers has risen from 3 times workers' salaries in the 1970s to 74 times workers' salaries.<sup>3</sup> Increasingly arduous work 'flexibility' arrangements are being imposed. The industrial arbitration commission and the union movement are constantly challenged by Government attempts to impose a draconian industrial relations regime.

Australia over the last two decades has been converted from a reasonably caring, mixed economy with a frugal but comprehensive social security safety net into a country where private provision, "individualisation of risk"<sup>4</sup> and a "do it yourself welfare state"<sup>5</sup> is the order of the day. The Government has intensified the rhetoric about the evils of "welfare dependency" as a way to decrease the legitimacy of claims for government assistance. In doing so it has foisted the obligation to support those in financial need back onto families.

This portrait of Australia may make it appear unlikely that a Basic Income paid to each permanent resident, *as an individual*, irrespective of their personal or social circumstances will be introduced in the near future: yet as will be seen there are grounds for optimism. A Basic Income system would be more just than the existing Australian system of income support. Low income-earners would be net beneficiaries of a Basic Income whereas rich Australians would not be economically advantaged by it because they would pay more in tax than they gain in benefits.

## Income Support Schemes

Before we can examine Basic Income further, it is useful to outline other existing and proposed systems of income support.

### Private superannuation and other privatised solutions

In Australia, private superannuation is the only form of superannuation available to non-government workers. The amount paid is proportional to contributions from workers' salaries (paid by workers and by their employers) or private investments made during the workers' employment. The inequalities experienced during working lives are extended into the post-working phase of people's lives. All private superannuation funds are at some degree of risk. The Australian Government Superannuation watchdog recently warned that at least 10% of funds are insecure.<sup>6</sup> Some workers, particularly those who in recent years have been forced by their 'employer' to become contractors, have private unemployment, sickness and accident insurance. It is not an affordable option for the majority of workers.

### The Job Guarantee

A job guarantee can only exist when a government is prepared to commit itself to becoming an employer of last resort. In the last thirty years there have been two forms of limited job

guarantee provided by Australian governments. The first in the 1970s, under the Whitlam Labor Government, was the *Regional Employment Development Scheme*, and the second was the job offer, after 18 months unemployment, under the Keating Labor's *Working Nation* package in the mid 1990s. The Centre for Full Employment and Equity at the University of Newcastle is promoting the most detailed current Australian proposal for a job guarantee. Under a job guarantee, those who are available and capable of doing the work on offer will be assisted. But those who cannot find suitable child care, or have a disability will be unable to take up a job under the job guarantee unless child care is provided and the obstacles to obtaining and keeping employment are overcome for people with a disability.

## Social Security

The greater the universality in any system of social security the nearer it comes to being an income guarantee. For instance, in Australia, all long-term residents who exceed specified age limits are entitled to apply for the age pension. The age limit for women is gradually being phased in to equal that of men. If their income and assets are below a specified amount they will receive payment. This is a Guaranteed Minimum Income for older Australian residents. Current age limits are 65 years for men and 62.5 years for women. Yet it needs to be remembered that the average age of death for Indigenous Australians is 56 years for men and 62 years for women. This compares with rates in the non-Indigenous population of 76 years men and 83 years for women. In Queensland, South Australia, Western Australia and the Northern Territory three-quarters of Indigenous male deaths and two-thirds of Indigenous female deaths occurred before the age of 65 years compared with one-quarter of male and one-sixth of female total deaths in Australia.<sup>7</sup>

Social security benefits are targeted to those whom the government has decided should be paid. Complexity, stigma, system failure and recipients' lack of sophisticated knowledge about bureaucracies results in many eligible people not receiving their proper entitlements. The Brotherhood of St Laurence and St Vincent de Paul 2003 report entitled "Much Obligated" asserts that people who become long term unemployed have so much of their time taken up just meeting the obligations imposed on them by the Government that they don't have time to find work: the report concludes the mutual obligation regime "is failing the most disadvantaged job seekers. Overall the system operates (...) not as 'welfare to work' but 'welfare as work'".<sup>8</sup>

## Guaranteed Minimum Income, Negative Income Tax and Tax Credits

The first fully elaborated book length Basic Income proposal, in the English language, was written by Dennis Milner in 1920. A Guaranteed Minimum Income, if it is available to all permanent residents, is very much like a Basic Income except for the requirement to establish that an individual's income and or assets are below the amount that is allowed. In 1943, Lady Juliet Rhys-Williams was the first English writer to provide a book length outline of the idea of a guaranteed minimum income. The purpose of such an income guarantee was in Rhys-Williams' words "to provide a 'floor' below which he (or she) cannot fall, but ought not to have a ceiling beyond which he (or she) can rise".<sup>9</sup> In 1970, Ian Braybrook wrote the first academic paper on negative income tax in Australia. The earliest Australian proposal to introduce a negative income tax was that of the Priorities Review Staff of the year 1975.

A Tax Credit is a form of negative income tax paid through the tax system. The aim of a guaranteed minimum income, negative income tax and tax credits is essentially to provide a

minimum income guarantee to those whose incomes fall below a specified amount. All these generalised forms of income support differ, in theory, from categorical payments in at least one important regard. They make no presumption about social eligibility. Yet when income guarantee policies are formulated residues from categorical social security policies are frequently present. When Professor Ronald Henderson, Head of the Poverty Inquiry, proposed his guaranteed minimum income<sup>10</sup> he wanted a two-tiered structure, using the family as the unit of income, which distinguished between those in receipt of benefits or pensions and those who did not then qualify. Other Australian guaranteed minimum income proposals have used the household as the unit for payment.<sup>11</sup> Such proposals ignored the inequities present in intra-family and intra-household transfers.

## Participation Income

Participation Income ideas are widespread in the present Australian system of income support. Participation income is a euphemism for the chance to impose an obligation on people who receive government or government-subsidised payments coupled with the paternalistic belief that this will assist the recipient to improve their life. Many researchers have described the philosophical underpinnings of Participation Income as unethical<sup>12</sup> because the only choice offered to welfare recipients is comply or starve. The practical outcomes for those who are breached are socially disastrous.<sup>13</sup> Evidence is emerging from the United States which suggests that a reduction in or removal of social security payments leads to increased health difficulties for children.

There is little recognition that workfare jobs entrench low paid employment by displacing full-time, above poverty-line jobs.<sup>14</sup> “Work for the dole” and Community Development Employment Program (CDEP) jobs in Australia have a similar effect of entrenching poverty.<sup>15</sup> The CDEP is a “work for the dole” program operating in Indigenous communities since 1977. The bulk of Indigenous “jobs” on Indigenous communities are CDEP “jobs” – paid at about the rate of unemployment benefits and only the most misguided would claim that such “jobs” have abolished poverty in Indigenous Australia.

Advocates of participation income seem oblivious to the life experiences of low paid workers’ revealed in 2003 in the Australian Liquor Hospitality and Miscellaneous Workers Union’s (LHMU) submission to the Senate Inquiry into Poverty. There is very little recognition of the demoralisation that follows in the wake of working full-time yet still being in poverty, or only being able to gain casualised, poorly remunerated, precarious employment.

The impact of enforcing obligations upon unemployed people, insufficiently employed people, lone parents and people with disabilities is the same whether it is expressed in the considered tones of Patrick McClure’s Report of 2000, or, one year before this, Minister Abbott’s suggestion that unemployed people are “job snobs”. The hysterical denunciation of “welfare dependency” and particularly intergenerational “welfare dependency” is based on a myth. There have been no intergenerational panel studies of long-term social security recipients in Australia. Recent overseas long-term panel studies refute such assertions.<sup>16</sup> Cook, Dodd and Mitchell<sup>17</sup> report that since 1975 in Australia there have been around eleven job seekers for each job vacancy.

Some researchers<sup>18</sup> have argued that if a Basic Income was put in place that workers would stay away from work in droves; whereas other researchers have argued the exact opposite.<sup>19</sup> The only study conducted in Australia into the impact on work willingness (where low-income families were provided with a guaranteed minimum income), showed these families

experienced no decline in work willingness.<sup>20</sup> Van Parijs<sup>21</sup> 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.

## Effective Marginal Tax Rates

The rate of tax people pay is very confusing because of the progressive tax rates in the Australian income tax system, the presence of family allowances paid through the tax system and because the social security system and the tax systems intersect; as a result many families do not get much benefit from extra income they obtain by working. Many low-income earners pay a greater proportion of their income in direct and indirect tax than do more affluent citizens. It is a long-acknowledged problem which governments over the years have failed to address adequately. The Government took a small step to reduce withdrawal rates from 70% to 60% in its 2005/6 Budget.

## Tax

Australian taxpayers are, for most taxation purposes, assessed as individuals. But eligibility for most social security benefits is calculated in terms of total family income. A person applying for social security benefit can be refused payment if they have a partner who is earning more than a specified income. If an employed person is supporting a partner who is without income, that person cannot lower their tax by counting the income as spread between two people. A government, interested in assisting families to stay together, would not persevere with the existing social security arrangements which discriminate against people pooling their resources. With a Basic Income, unlike all the other forms of public assistance discussed, neither the employment income nor the amount of Basic Income is directly affected by the other source of income. The withdrawal rate is the income tax rate on earned income. Importantly this removes poverty traps and work disincentives simultaneously.

In the current climate of individual work contracts and increasingly precarious employment, rather than relying upon individual employers to pay a wage sufficient to lift workers out of poverty, organised labour needs to consider whether there is not considerable merit in the collective provision of a Basic Income.

## Why Australia needs a Universal Basic Income.

The income support issues with which Australia is grappling at the start of the 21<sup>st</sup> century are remarkably similar to those which many other countries are confronting. Anyone who reads the papers in the Basic Income Earth Network's 2002 and 2004 Conference Proceedings, which detail the work of researchers from every continent, could not fail to be struck by the similarities in the debates. It needs to be remembered that in the decade prior to the 1980s there were many social welfare improvements and a great hope for even more. The Henderson Poverty Inquiry's First Main Report of 1975 endorsed the idea of introducing a guaranteed minimum income and the Whitlam Labor Government seemed accepting of the idea.

## Social protection

The prime reason for supporting a universal Basic Income is that it is the most socially just way of ensuring social protection.<sup>22</sup> In an ideal world everyone would have their needs fully met and all would contribute their utmost to ensure that everyone's needs were met. This was essentially what the welfare state was meant to do in the post-Second World War period. The current Australian social welfare system, due largely to under-funding resulting from economic fundamentalists' constant attacks, is less capable of ensuring social protection for the most vulnerable than the Australian welfare state of the late 1970s and early 1980s. Many of the family support structures which were the first port of call for help in earlier times have been eroded; full-time work above the poverty-line is harder to find.

## Intergenerational distribution young / old

Whereas social insurance payments are largely paid for by the contributions of workers, social security in Australia is paid from general taxation. In the 1960s and early 1970s age pensioners were often confined to poverty level incomes. The Henderson Poverty Inquiry of 1975 exposed this sorry state of affairs and now the Australian social security system treats age pensioners far more generously than unemployed people and younger unemployed people in particular. In Europe similar age-delineated inequities have led to intergenerational envy. Older Australians need to realise that their taxes went to pay the pensions of their parents' generation. There is nothing left to pay theirs and if they don't treat younger people better the young might refuse to contribute to older people's support. A Basic Income, because it is paid equally to all, abolishes such intergenerational envy.

## Affordability

In any social policy process the first and last question asked is "Is it affordable?" No space has been devoted to this question so far and it must be addressed. The Henderson Poverty Inquiry of 1975 showed that its guaranteed minimum income scheme was affordable. Keith Rankin has written extensively on the economic affordability of Basic Income in New Zealand. George has specifically addressed this question in relation to the United States. The Irish Government has declared it is affordable there.<sup>23</sup>

In Australia, Saunders<sup>24</sup> worried that a full universal Basic Income might require a 50% income tax rate which he considered politically unpalatable. This calculation was made prior to the GST which, now implemented, would lower the tax rate required to something more in line with what the Irish Government has recently declared would be necessary (that is 43 percent) to pay for an above-poverty-line Basic Income. This would mean that the required tax rate to pay for a Basic Income would be at or slightly above the current tax rate imposed on incomes exceeding \$63,000 (probably in the order of 45 percent).

Perhaps the last word on affordability should be left to José Iglesias Fernández<sup>25</sup> who proposed a full universal Basic Income scheme for Catalonia paid at 50% of the average European Union wage. Considering whether his proposal was affordable, Iglesias Fernández wrote that since the Basic Income was only half of the per capita income that therefore the money needed to pay for it already existed and that it was simply a matter of redistribution.

## Efficiency

While Australia has 12 to 18 % of its working age labour force unemployed, underemployed, disguised unemployed or discouraged unemployed, it is clearly not making an efficient use of available labour in this country. The Commonwealth Government's Committee on Employment Opportunities commented: "The loss of production through unemployment is the single greatest source of inefficiency in our economy. Unemployment is also the most important cause of inequality and alienation for individuals, families and communities".<sup>26</sup>

Governments in Australia are certainly capable of determining the cost of delivering specific categorical benefits to those who are paid. They can and do calculate how much they 'save' by cutting people off income support when they do not meet the eligibility requirements for any specific benefit. This is **accounting** or **target efficiency**. Governments seem uninterested in 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 **as a whole**.

Some of the system-wide questions, which would need to be answered if **the efficiency of the system as a whole** was being calculated, 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 inclusion of people with a disability?
- Are all genders, ages and ethnic groups treated equally or equitably?
- Is there equitable treatment provided to people from the city and the country,
- and 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?

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 costly and an extraordinarily inefficient way of providing income support to those with a disability. People with equivalent levels of impairment often have widely different employment histories. It would be more efficient to provide a universal income guarantee if the desire is to encourage productivity/contribution/inclusion by those who have a disability. Australian governments have recognised this in relation to Blind Pensioners<sup>27</sup> but continue to subject others who have severe disabilities to stigmatised, selective, targeted, categorical payments.

There are broader aspects of efficiency that can and should be mounted in support of an unconditional Basic Income:



- 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 people to explore their creative capacity.
- It removes many of the obstacles to a reinvigoration of industrial, technical and computing infrastructure.
- It allows the State a fuller understanding of the impact of its other social wage policies.

## Conclusion

A universal Basic Income is not a utopian idea. It is an efficient affordable way to ensure no Australian permanent resident remains in poverty. However, a Basic Income is just that – an unconditional universal income guarantee. It delivers an income floor without impeding productivity. 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” and as a result create a “do it yourself welfare state”.

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