

REPLACING WELFARE WITH DIGNITY AND WORTH

By Lowell Manning

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It costs nothing to change our lives for the better. To replace welfare with dignity and worth. Though you wouldn't know that if you read the corporate media.

Governments around the world have been trying to manage "income redistribution" for decades. All developed countries and most developing ones have some form of social safety net or social "welfare". There is endless debate about the size and shape of those safety nets and they vary widely from country to country. That debate has grown as "welfare" systems have become more complex and more "expensive" to fund.

Transfer payments have increased because our urban society with its nuclear and sub-nuclear households is no longer as adaptable or self-sufficient as it used to be. In addition, our economy is being overwhelmed by globalisation and deregulation where profits take precedence over dignity and worth. The result is mass unemployment and an accelerating flow of income and wealth from the poor to the rich, while, at the same time, fiscal "austerity" prevents meaningful increases in "welfare".

This has happened because the "haves" have captured the "welfare" debate while at the same time emotionally loading it. They look at only one side of the welfare ledger and oppose anything that reduces their perceived entitlement, even as their share of total income and wealth continues to *rise*. As a result, vast numbers of people no longer control their own lives. Many of their rights and freedoms have been destroyed.

We need to replace the demeaning language of "welfare" that views transfer payments as a hand out by the rich with a world-view that reflects human dignity and worth as agreed in Article 25 of the UN Universal Declaration of Human Rights. Article 25 reads:

(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

(2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

The world has failed to live up to those commitments. Instead, it has, over the past 30 years or more, seen a startling increase in inequality and decrease in the standard of living and dignity and worth of many of its people.

In New Zealand (and elsewhere) the **right** to an adequate standard of living has been usurped by a “**welfare**” system that casts a large section of our community, especially women and children, as beggars in a world of relative plenty.

Restoring that right is mostly about changing the conversation. It is about thinking in human terms instead of accepting the economic jargon of the dominant free market ideology.

A BASIC INCOME FOR NEW ZEALAND

Basic income is a tax-free individual income ***paid as of right*** to each legal resident other than those living for the time being offshore or in state funded institutions such as prisons and hospitals.

Basic income restores the right to an adequate standard of living and eliminates welfare in favour of dignity and worth.

There is nothing radical or new about basic income. The idea has been around for more than a century¹. It is now being widely discussed around the world². There will soon be a national referendum on it in Switzerland.

Many countries already have a partial basic income. In New Zealand, National Superannuation is a basic income for the elderly. We also used to have a basic income for children called the Family Benefit. Recent efforts to rationalise the many different welfare benefits in favour of a single payment might also be seen as a small step toward a basic income. However, most people with jobs, all children, and almost all those who contribute as unpaid caregivers or who do voluntary work remain unrecognised.

Table 1 shows what a basic income might look like in New Zealand.

¹ For a good general history see “Every One a King” by Walter van Trier.

² For example www.BIEN.org BIEN stands for Basic Income Earth Network. It represents affiliated basic income movements from across the world.

The basic income in Table 1 replaces all social welfare, superannuation, veterans allowances, student allowances and loans, and other transfer payments other than disability, special needs and similar payments. Those last would be funded separately by relevant government departments on a case by case basis.

The basic income would be paid weekly into a special individual bank account that would be accessed with a debit card.

The housing provision in Table 1 is unique among basic income proposals because, as shown in Table 4, it allows a very close matching of basic income with existing transfer payments. The housing basic income is automatically distributed among adults registered on the electoral roll for the time being at each occupied dwelling³.

The proposal in Table 1 represents more than 23% of GDP, but it is important to remember that *everyone* gets it, including all those with earned work incomes.

Everyone is free to work and keep all their tax-paid income.

Table 2 shows one way of funding the basic income shown in Table 1, though there are numerous other ways to do it. There is a unique funding solution for any set of variables. In Table 2, about half the funding comes from existing welfare entitlements. The rest of the funding could come from increased taxation where income earners are taxed more and that tax is, by and large, returned to those same taxpayers in the form of their tax-free basic income. That is the basis of most overseas proposals.

Table 2 is deliberately chosen to be redistributive in that it uses a 1% wealth tax⁴. The residual, (just over 2% of GDP), comes from quantitative easing (E-notes).

Tables 1 and 2 can be used to show how closely the basic income matches the existing income distribution and “welfare” system. Table 3 shows that only high income, high wealth households and upper income households without children are worse off than they are now, while **almost everyone in the middle, lower and bottom incomes is better off.**

The Quantitative Easing money goes to the many rather than the few.

³ The halfway housing provision applies to people living in boarding houses, motor camps, and similar types of residence not included within the definition of “household”.

⁴ This is less than that proposed by Susan Guthrie and Gareth Morgan in their book “The Big Kahuna”

While the funding shown in Table 2 deliberately sets out to redress some of the increase in inequality created over recent decades, it can easily be re-adjusted to fit other criteria.

Research by the author shows that, taking the small amount of Quantitative Easing into account, the basic income shown in Table 1 can be fully funded by a 1% wealth tax and a flat tax rate of 41.5% on all earned personal income (*excluding* all basic income payments that are tax-free), compared with the present (December 2010) aggregate total income tax level of 29%.

Tax progression is restored because the tax-free basic income of lower income earners forms a larger proportion of their total income than is the case with higher income earners. That is why, in the example, a *flat tax of about 41.5%* on earned income is fully progressive once the wealth tax is included.

Basic income does not have to “cost” anyone anything.

SOME BENEFITS FROM BASIC INCOME

The primary benefit of basic income is that it replaces “welfare” with dignity and worth. It puts people back in control of their own lives. That in itself would be a massive achievement in a country like New Zealand where about half of the entire population is presently dependent on “welfare” of some kind.

A substantial part of dignity and worth is freedom from the poverty trap where those on “welfare” can be worse off by going to work than they are if they remain on a benefit. Many low-income working families are also trapped in relative poverty due to policies like means testing of benefits. Another important part of dignity and worth is the freedom to choose. With a basic income, people can choose where to live, where to work and what they do.

Basic income also gives women and children more options in case of violence and abuse. Their work in the home is “valued” for the first time. Economic activity will increase because more people can work without fear of breaking employment rules. Contrary to widespread fear mongering by some employers, there is no evidence to support the view that people are inherently lazy and will not choose to work when they can. Basic income offers a powerful incentive to work because those who

do so always improve their standard of living. More people will have the freedom to start small businesses, choose alternative lifestyles and innovate, leading to a more diverse and vibrant society.

It pays to work when you get a basic income.

Basic income will also give employees a little more leverage over their wages and conditions, especially the latter. Employers may find they have to offer a little more to fill less desirable jobs. Even so, basic income is unlikely to create wage inflation because many more people will make themselves available for work.

The housing provision in the basic income proposal is universal. Its size allows most people to stay where they are if they choose to but there is a powerful financial incentive to shift away from more expensive areas to cheaper ones, perhaps reducing the housing pressure in some inner city areas like central Auckland.

OUTCOME

Basic income represents a change in our perception about the society we live in and it will drastically alter for the better the way we think about others in our community. It will change “welfare” with its mass of negative stereotypes into the dignity and worth the whole world says it wants to have. We just need to take back control of the language we use so it works for us instead of against us.

Lowell Manning

Table 1. The New Zealand basic income structure December 2010 ⁵

Group	Rate \$/week	Number	BI NZ\$ million
Adults > 65	170	520 000	4597
Adults 18-65	120	2 670 000	16661
Children <18	100	1 170 000	6084
Housing provision	230	1 560 000	18658
Halfway housing	140	80 000	583
Total Basic Income (December 2010) NZ\$ million			46583

⁵ “A guaranteed minimum income for New Zealand” Paper 3 Revision A 8/8/2011 by Lowell Manning. www.Sustento.org.nz or www.integrateddevelopment.org

Table 2. Funding of basic income in New Zealand ³

Funding Source	NZ\$ million
Existing entitlements transferred to BI (24300 ⁶ -2200 ⁷)	22100
Less cost of basic income administration	(100)
Net Wealth Tax (\$1200 billion) ⁸ @ 1%	12000
Ongoing E-note injection NZ\$ million (3600 +720)	4320
Net compensatory tax adjustments ⁹	8263
Total (December 2010) NZ\$ million	46583

⁶ Vote Social Development plus Family Tax Credit NZ\$ 2.2b and In-Work Tax Credit NZ\$ 0.6b and veterans payments NZ\$ 0.3b

⁷ Residual expenses include departmental Output expenses NZ\$ 500m, debt write downs NZ\$ 830m, residual transfers to other agencies, say NZ\$ 800m, capital input NZ\$ 70m.

⁸ Comprising Net Capital Stock (from National Accounts Table 1.7), Aggregate Land Value (courtesy Quotable Value NZ), Bank Deposits, and provisions for chattels and the private household vehicle fleet and for miscellaneous and intangible assets LESS New Zealand's total debt NZ\$ 300b. Mineral resources are excluded from the calculation.

⁹ This will tend to involve increasing the tax rate on earned incomes to offset the basic income paid to each legally resident individual in the country as detailed in the plan. This paper proposes a flat tax rate of 41.5% on earned income, which seems to satisfy the social and administrative objective of the BI proposal.

TABLE 3 Comparison of Basic Income with existing earned incomes

LEVEL	INCOME	ASSETS	FAMILY	NET EX	BI	DIFF1³²	DIFF2³²
High	\$150000	\$1000000	2A+2C	\$109580	\$112590	+3010	-5480
			2 ADULT	\$109580	\$102190	-7390	-15700
			1 ADULT	\$109580	\$95950	-12630	-12360
Upper	\$100000	\$500000	2A+2C	\$76080	\$88340	+12260	+1360
			2A	\$76080	\$77940	+1860	-9040
			1A	\$76080	\$71700	-4380	-4380
Average	\$75000	\$300000	2A+2C	\$62297	\$75715	+13418	+9163
			2A	\$59333	\$65315	+5982	+1727
			1A	\$59333	\$59075	- 258	-258
Lower	\$50000	\$0	2A+2C	\$58620	\$64090	+5470	+4240
			2A	\$48480	\$53690	+5210	+3980
			1A	\$47180	\$47450	+270	+270
Bottom	\$35000	\$0	2A+2C	\$50187	\$55315	+5128	+4311
			2A	\$36355	\$44915	+8560	+7743
			1A	\$35055	\$38675	+3620	+3620

Note: Column DIFF2 assumes single household income while Column DIFF1 splits incomes 1/3 and 2/3

“A” refers to adult. “C” refers to child. “2A+2C” is a family with 2 adults and 2 children <18.

TABLE 4 Selected Comparisons between Basic Income and existing transfers

Basic Income					Transfer Payments				
Category	Adult	Child	Housing	BI Total	ben Adult	ben Child	Accom Max	Other ¹⁰ Max	Total NZ\$
Single pensioner ¹¹	170	0	230	400	333	0	145(1)	0	478
							65(3)	0	398
Pensioner Couple ²⁶	170	0	230	570	512	0	160(1)	0	672
							75(3)	0	587
Working families									
Single adult < 65	120	0	230	350	0	0	145(1)	0	145
1 adult 1 child>18	120	100	230	450	0	0	160(1)	161	321
1 adult 2 child>18	120	100	230	550	0	0	225(1)	249	474
Two adults < 65	120	0	230	470	0	0	160(1)	0	160
2 adult 1 child>18	120	100	230	570	0	0	225(1)	161	386
2 adult 2 child>18	120	100	230	670	0	0	225(1)	249	474
Three adults <65	120	0	230	197each	0	0	160(1)?	0	160?
Non workers									
Three students	120	0	230	197each	194 ¹²	0	40	0	234
Student couple	120	0	230	470	324	0	80?	0	404?
DPB sole 1 child	120	100	230	450	278	100	160(1)	0	538
							75(3)	0	453
DPB sole 2 child	120	200	230	550	278	169	225(1)	0	672
							120(3)	0	567
DPB sole 3 child	120	300	230	650	278	238	225(1)	0	754
							120 (3)	0	651
Unemployed couple	120	0	230	470	324	0	160(1)	0	484
Unemployed single	120	0	230	350	194	0	145(1)	0	339

Note: The figures (1) and (3) in the “Accom Max” (Maximum accommodation supplement) column refer to the maximum Accommodation Supplement available in the respective accommodation supplement zones as of December 2010.. Zone (1) applies to parts of Auckland. Zone (3) applies to urban areas [outside zone (1) and the several other urban areas included in Zone (2)]. The figures shown are the MAXIMUM amounts available in the zones. Most households receive less than the stated maximum.

¹⁰ Tax credits are arbitrarily based on NZ\$35000 joint income

¹¹ The effect of the wealth tax on pensioners is not included here.

¹² Student allowances in New Zealand are means tested and the figure given is for 24 years+. Most students are less than 24 years old. Many students are presently forced to take out student loans.