

## Pathways to an Australian Basic Income

Troy Henderson (University of Sydney) and Dr Ben Spies-Butcher (Macquarie University)

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### Abstract

*Basic Income (BI) has achieved greater prominence in public debate since the 2016 Swiss referendum and the Finnish BI trial that commenced in 2017. Politicians, union leaders, businesspeople, and other public figures, have increasingly taken a position on the policy, whether for or against.*

*BI researchers can make an important contribution to this public policy debate by examining different “pathways to basic income” that seek to bridge the divide between present political and economic circumstances and the goal of a truly universal and unconditional BI.*

*This paper explores one such pathway to BI in the Australian context. It identifies two policy changes that would mark a partial shift away from Australia’s highly means-tested transfer system towards a more universal model of income support. Specifically, we propose a combination of a genuinely universal age pension for which the eligibility age is gradually lowered together with an unconditional Youth BI paid to those aged 20-24 based on a negative income tax model.*

*These proposals are used to explore two conceptual questions. The first is through consolidation of Australia’s ‘dualised’ retirement incomes system, which combines a means-tested public pension with generous tax concessions for private superannuation. The paper explores how universalism can be funded through more consistent taxation, potentially allowing the retirement age to be lowered.*

*The second is how the cost of a BI might be managed through integration with the tax system, specifically by reconceiving part of marginal taxation as a ‘claw back’ of the payment itself. We argue that this is logically identical to a universal BI, but with a much reduced fiscal impact.*

*We argue together these proposals allow for an alternative to the neoliberal politics of population ageing, addressing emerging intergenerational inequalities in Australia’s current dualised model.*

### Introduction

Basic Income can be viewed as a “pragmatic-utopian reform” (Henderson, 2017) aimed at establishing a universal social right to a regular cash payment sufficient to meet basic needs. The high fiscal cost of such a policy, together with the cultural force of the “work ethic” and the specific institutional character of national tax and transfer systems, present as significant obstacles to this reform. Therefore, we argue that a “pathways to basic income” approach may offer a way forward in terms of thinking through the intermediate steps between current institutional arrangements and the implementation of a truly universal and adequate BI.

Australia’s system of targeted cash payments is one of the most redistributive in the world. An influential argument in Australia has been that by directing resources to those with limited means, more can be done to address inequality and poverty with limited resources. Given the targeted nature of the existing system, any move towards universalism is likely to reduce the degree of redistribution per dollar, and if done in isolation, may even reduce the total level of redistribution of social payments by only extending additional assistance to those with more resources.

There is, however, reason to believe that Australia's targeted payments system creates new problems, particularly by increasing tax resistance. The "paradox of redistribution" thesis (Korpi and Palme 1998) claims that by targeting resources only to the poor, welfare programs become stigmatised, middle class voters see little benefit, and thus the programs lose the political support necessary to access fiscal resources. While the international evidence is mixed, the thesis is consistent with recent dynamics in Australia. The most targeted payments, especially the Newstart Allowance, have the greatest degree of stigma, have faced consistent erosion, and have become subject to new punitive forms of conditionality. Alternatively, the more universal payments, the age pension and family benefits, have enjoyed much greater political support, have had much easier access and more generous indexation, and have even seen discretionary increases in payment levels.

These existing institutional structures and cultural dynamics highlight opportunities – and likely points of resistance – in relation to shifting Australia's system of income support in the direction of Basic Income (BI). In this paper we first outline the "pathways to basic income" approach in general. Second, we examine how a combination of a genuinely universal age pension and an unconditional Youth BI might serve as an example of the "pathways" approach in practice. We conclude by noting how such an approach can help address emerging intergenerational inequalities.

### **Pathways to Basic Income Approach**

The Basic Income Earth Network defines BI as 'a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement' (BIEN, 2016). One of the key criticisms of BI is that as soon as the payment reaches a non-trivial level its unconditional and universal character generates a high fiscal cost that renders the policy politically infeasible. There is a growing international body of literature focused on estimating the fiscal impact and static distributional effects of different levels – and models – of BI (see Reed and Lansley, 2016, OECD, 2017, Martinelli, 2017). The literature relies on microsimulations of the tax and transfer systems of various countries and regions.

There is a clear divide between "universal pension" or UBI models in which everyone receives the same payment before tax and "negative income tax" (NIT) models in which only those individuals whose incomes fall below particular thresholds receive a full – or partial – payment. Harvey (2006) is not alone in concluding that 'a UBI and an NIT designed to achieve the same redistributive effect would impose the same marginal rates of taxation on other sources of income, but that the overall tax burden required to fund an NIT would be much smaller than for an equivalent UBI' (Harvey, 2006: 17). Similarly, Honkanen, states that a UBI model 'can be almost equal with an NIT model when we compare the distributional effects and net income flows' but that 'if the difference between net and gross flows is not grasped, the large transfer flows create the appearance of very high costs' for the UBI model (Honkanen, 2014: 132-33).

Australian researchers have reached similar conclusions. A 1998 study modelled a range of BI/Flat Tax (FT) and NIT scenarios that might move Australia towards a more integrated and simplified tax and transfer system. The authors concluded that the 'most radical change' of

a BI/FT was 'not likely to be feasible' but that scenarios that 'involve the tapering out of tax credits, variable tax rates, and some selectivity in who receives tax credits make the idea of a negative income tax system look much more feasible' (Dawkins *et al*, 1998: 254).

Scuttella (2004) modelled a BI/FT model in which a 'basic non-taxable level of income is introduced that replaces all existing basic social security benefits, and additional payments such as rent assistance, pharmaceutical allowance and family payments' and 'the existing tax structure...is replaced with a constant marginal tax rate on all taxable income' (Scuttella, 2004: 6). Scuttella concluded that a BI 'coinciding with current benefit rates is costly, with a marginal tax rate of over fifty per cent required to ensure revenue neutrality in the first instance.' While the system would be 'more equitable and in certain circumstances social welfare enhancing' Scuttella found it would have negative effects on labour supply and efficiency and argued that 'such a tax rate is almost certain political suicide for any government advocating such a system' (Scuttella, 2004: 26).

These concerns over the fiscal impact, incentive effects and political obstacles to moving straight to a full UBI suggest that a "pathways to basic income" approach could offer the best way forward in terms of building political support for a more universal system of income support while improving the material circumstances of two groups with higher levels of vulnerability than the general population. The next section examines the case for a universal age pension in Australia.

### **A Universal Age Pension**

Many argue Australia's targeted social spending is a distinctive feature of an Antipodean social model developed around wage regulation during the early twentieth century (Castles 1985). While arbitration is the central feature of this "wage earner" model of welfare, the use of flat-rate social payments is also distinctive. Unlike the contributory schemes of Europe, where payments are generally related to previous earnings and funded through social security contributions, or the highly targeted and stigmatised models of social payments in the United States, Australia pioneered a model of social protection that was inclusive but frugal. This initially developed around age pensions, which were first introduced by colonial governments prior to federation, and then adopted nationally by the Fisher Labor Government. The labour movement's ambivalence towards the state meant resistance to raising taxes on ordinary workers, significantly limiting the fiscal potential of social policy. Australia's model therefore tried to do a lot with limited revenues. The pension was set at a low flat rate, which provided reasonable "replacement" levels of income to low-income workers, but would be considered inadequate for the emerging middle class.

Australia's public pensions have (almost) always been means-tested, however means-tests operate in a qualitatively different way to many other jurisdictions. Rather than using means-tests to restrict access to the very poor, the pension means-test is set at a level that ensures a substantial majority of those aged over 65 are eligible for at least a part-pension, and a large minority receives the full pension. The use of means tests to "exclude the rich" rather than to "target the poor" marks out the Antipodean model as a form of "affluence testing" as opposed to the more meagre tradition of "means testing". The distinction is not only a technical or economic one. Quite different political dynamics have emerged between

those programs in Australia that retain the structure of affluence testing – the age pension and family payments – and those that have been subject to more restrictive means testing. The later have seen their value stagnate in real terms, and fall as a proportion of average wages and incomes, and have become subject to increasingly paternalistic and stigmatising conditionality.

Alternatively, the age pension has enjoyed considerable political support, successfully resisting attempts to cut the pension rate, and even seeing governments of both sides provide discretionary increases. Family payments have also enjoyed various forms of expansion (although this has been alternated with modest reductions). In 2016, 69% (2.54 million) of eligible Australians received some level of age pension. Among recipients, 57.9% received the full pension (maximum rate payment) and 42.1% received a part pension. In 2015-2016 expenditure on the age pension was around \$42 billion or 2.6% of GDP (Department of Human Services, 2016).

The political resilience of Australia's public age pension suggests an important advantage of universalism. However, this model has come with two significant problems. First, the model is based on a very particular understanding of the life course. Affluence testing is relatively effective because of the expectation that older Australians will retire at pension age. It is important to note this is a cultural understanding – there are few examples of mandatory retirement ages in the Australian labour market – but it remains a powerful social driver.

The income test for the age pension for single individuals begins at \$168 per fortnight (\$4,368 pa). The withdrawal rate is 50c in the dollar (Department of Human Services, 2017). Such a payment structure is clearly incompatible with combining significant paid work and receiving the age pension. Various modifications have thus been made to both the tax and transfer systems to improve work incentives, although many of these create new inequalities, especially between younger and older workers. As the traditional conception of the work life course changes, to facilitate different combinations of part-time work, volunteering and care provision in later life, affluence testing is increasingly a barrier to equitable, easily understood and efficient policy making.

Second, the Australian model has given rise to a dualistic pensions system based on inconsistent treatment of various forms of investment. The politics of the original implementation of the age pension – initially alongside a highly progressive land tax, and then an income tax system including only the relatively wealthy – saw the early creation of tax exemptions to assist the retirement savings of those excluded from public provision. The system of tax concessions was only partly wound back with the introduction of compulsory superannuation, and then further expanded in the context of the strong tax revenues from the mining boom by the Howard Government. Alongside this, a second set of exemptions developed to reflect Australia's strong support for private home ownership.

Social policy and housing scholars have long noted the connection between the low rate of the pension and the high level of home ownership amongst older households. Judged solely on income Australia should have one of the highest levels of aged poverty in the developed world, but when housing costs are included the calculation falls to more modest proportions. Home ownership lowers the cost of living, allowing a modest pension to go

further. However, making home ownership a prerequisite of pension policy has meant carving the home out of the pension asset test. The assets test limits for the full age pension for single individuals (excluding your principal home) are currently set at \$253,750 for homeowners and \$456,750 for non-homeowners. For the part-pension, the equivalent rates are \$550,000 and \$753,000 (Department of Human Services, 2017). Combined with a rapid increase in house prices, and an emerging decline in ownership amongst lower income older workers, this creates both a very substantial inequity and contributes to spiralling house price inflation.

Australia's dual welfare state remains one of the country's greatest sources of rising inequality, and is in large measure the by-product of our pension policy. This both recognises a structural weakness in the Australian model, but also a real opportunity. The tax concessions connected to superannuation and housing are significant fiscal drags. Super tax concessions cost the federal budget around \$33 billion in 2016-17 (with more rapid growth than the age pension). Not only is the family home exempt from the pension means test, but also from capital gains taxation – a position increasingly difficult to justify as home ownership rates for younger age cohorts fall. Treasury estimates the revenue costs of this exemption (and the 50% capital gains discount) at \$61.5 billion in 2016-2017 (Treasury 2017: 9; Martin 2017). The politics of affluence testing directly contributed to the development of a dual welfare state in Australia; it is therefore useful to consider how a new political bargain might facilitate a trade off between tax consistency and universal payments.

New Zealand offers an interesting case study. It has developed a very similar social policy framework, leading Francis Castles (1985) to initially categorise both countries as part of a common Antipodean model. However, social liberalism has always been relatively stronger in New Zealand. A somewhat different experience of economic restructuring saw inequality rise more rapidly across the Tasman, but also saw a less dualised model of pension policy. Alongside a universal pension from age 65, New Zealand saw a more uniform and consistent (if less progressive) tax scale. Concessions for New Zealand's version of superannuation – Kiwi Saver – are negligible compared to Australia.

It is precisely this model that The Australia Institute has argued should be pursued in Australia. Ingles and Denniss (2014) argue that by eliminating tax concessions for superannuation the Australian age pension could be universalised, and the eligibility age reduced. We note there are further savings to be made by better integrating the pension into the tax system, either by defining the pension as taxable income to create some equity with younger workers, or by integrating pension withdrawal rates into the tax system (as we propose to do with YBI below) and eliminating the asset test.

For illustrative purposes only, paying the full pension at the maximum basic rate for single persons (\$21,015 per year) to all 3.74 million Australians (ABS, 2017) currently age 65 and over would cost around \$78.5 billion in 2016. This increase from the current \$42 billion annual cost could be met by a combination of removing/reducing the concessional tax treatment of superannuation and the capital gains tax exemptions for the family home. This additional cost would be substantially reduced by continuing with single and couple rates for the age pension, and by removing a number of tax offsets and exemptions targeted at

older Australians to address the current incentive problems caused by income and asset means tests.

Such a policy would create a version of basic income for older Australians while addressing increasingly important structural inefficiencies. Ingles and Denniss note New Zealand's higher workforce participation rates amongst those over 65, an empirical result entirely consistent with eliminating the Australian system's strong work disincentives. In 2015 Australia had a workforce participation rate for those age 65 and over of 12.9%. This is considerably higher than many European countries but much lower than the New Zealand figure of 20% (AIHW, 2017).

A universal pension would eliminate the asset means test, simultaneously eliminating the current exemption of the family home. Combined with eliminating the exemption for the family home from capital gains tax this would address one of the most significant distortions in the Australian housing market, assisting younger households currently locked out. The combined effects would very likely improve equity amongst older households too, given the extreme inequalities in the distribution of capital gains exemptions. Such a change would substantially increase the tax funding of any shift, allowing either a substantial reduction in eligibility age, or support for other spending, such as the model for YBI we propose below.

Universalism would also address another existing inequality. Withdrawals from superannuation are generally tax free for those over 65. Yet, for those with moderate super savings, withdrawals impact the income and asset means test, meaning many face marginal withdrawal rates above the top marginal tax rate. A universal pension would level the playing field for those "caught in the middle" of Australia's dual system, and encourage the use of super as an annuity (its initial purpose) rather than a lump sum.

### **A Youth Basic Income**

We have argued that the age pension creates a useful model for a potential BI by extending an "affluence tested" payment into a universal payment. Here we examine how a highly targeted "means-tested" payment might be transitioned into an affluence tested payment. While this might be seen as a stepping stone, we argue it could also provide a more politically feasible logical equivalent to a true BI. We also believe that changes in Australia's other payments reflect the logic of affluence testing, and so this model is likely to resonate with existing institutions and political norms.

As we have said, the targeted nature of Australia's existing payments systems means it is hard for reforms to increase progressivity or redistributive effect while also universalising access. An exception to this is where, as with our proposal for the pension, universalism is funded by removing regressive tax concessions. The benefits of universalism, however, also lie elsewhere. An important benefit claimed for the BI is that it might support workers in the context of riskier and more rapidly changing labour markets. This emphasises the insurance function of a BI, rather than its equalising effect. Following this logic, we focus on young people, a particularly vulnerable labour market segment, where we would expect workers to be making numerous transitions and face higher uncertainties. Focusing on age also complements our initial discussion of pensions – and a future strategy to 'join up' the two

systems, and as a political bargain aimed at addressing emerging intergenerational inequalities.

Aspects of this approach are already evident in reforms to cash payments for working age people over the past 40 years. Originally, the unemployment benefit had a 100% withdrawal rate. This reflected Australia's breadwinner labour market, in which the clear majority of jobs were full time, meaning that employment could be sensibly viewed as a binary variable (employed/unemployed). As part-time and casual forms of employment have proliferated, so policy makers have focused attention on effective marginal tax rates as an incentive problem. The breakdown of some other binary divisions potentially creates the same dynamics – for example the assumption that people with disability or those with caring responsibilities either have no paid work or can work full time.

The transaction and incentive costs associated with maintaining the eligibility for these various payments is another key argument in favour of BI. It costs considerable resources to assess if a person has 'sufficient' impairment to classify as eligible for a disability pension, and indeed many forms of disability vary across time making such classifications nonsensical. There are 'hard' lines drawn between parents of children of different ages, often despite similar care needs. And for many, if they find substantial paid work and lose eligibility they then need to requalify if they lose employment, creating strong disincentives to take on paid work.

The focus on effective marginal tax rates also points to how another binary is blurring – that between a tax rate and a benefit withdrawal rate. From the point of view of incentives (at least for purely instrumentally rational agents) they are identical because they have identical effects on marginal income gains from work. Yet they have profoundly different budgetary implications, and thus political implications.

Imagine two ways of funding an increase in spending on cash payments. One is to raise marginal tax rates; the other is to increase benefit withdrawal rates. The first increases aggregate taxation and maintains higher social spending – giving the appearance of "big government". The later reduces spending and maintains taxation – giving the appearance of "small government". While the incentive and distributional impacts of the two schemes may be identical, and the *net* fiscal impact is also the same, the politics are very different. In the context of a market ascendancy during the 1980s and 1990s, we argue it is unsurprising Australian governments frequently opted for the later strategy; and indeed note that Australia's highly targeted welfare system in many ways underestimates the effective size of the state.

Drawing on this logic, we propose a model tax and benefit withdrawal scale designed to re-create the Newstart Allowance for Australians age 20-24 as an "affluence tested" Youth Basic Income (YBI). We operate on the following principles:

- i) Effective marginal tax rates should only increase with income
- ii) High income earners should receive no net benefit from moves towards universalism

- iii) No below average income earner should be left worse off (i.e. have a lower net income for any given market income)
- iv) The current tax scale and payment level should largely be taken as given

Under our proposal 15-19 year-olds, the majority of whom are attending high school, would still be eligible for Youth Allowance. There is obvious scope to extend our YBI to cover 18-24 year-olds over time but here we focus on converting Youth Allowance and Newstart Allowance into a YBI for 20-24 year-olds. Under the current arrangements for Youth Allowance, the basic payment for a single person over 18 without children and not living with their parents is \$11,375 (without rent assistance) and recipients can receive approximately \$11,000 per annum in earned income without losing any benefit. For the Newstart Allowance, the equivalent payment is \$13,925 (see Table 1). Currently, to be eligible for Newstart individuals must: 'be at least 22 and not at age pension age (65 to 67), meet residence rules, be unemployed, with income or assets below a certain amount, prove you're looking for work not be on strike' (Department of Human Services, 2017).

There are a range of payment rates for Youth Allowance and the Newstart Allowance (see Table 1). We propose setting the YBI at \$14,068 per annum, marginally above the single Newstart rate. This payment rate would also ensure an increase in payments for those currently receiving the full benefit. For simplicity we do not discuss other payment changes, but note that a supplement for parents, carers, those with disability and some others would allow our proposal to meet our four principles. Our intention is not to eliminate all other payments, but to create a new floor. We also note a minor New Zealand political party, TOP (Top Opportunities Party) recently proposed 'an Unconditional Universal Basic Income and pay \$200 a week (AUD188.33) to all New Zealanders aged 18-23' (Hayton, 2017).

**Table 1: Newstart Payment Rates and Eligibility Criteria, 2017**

Youth Allowance: Your circumstances	Youth Allowance maximum fortnightly (annual) payment	Newstart Allowance: Your circumstances	Newstart Allowance maximum fortnightly (annual) payment
Single, no children, younger than 18 years, and live at your parent's home	\$239.50 (\$6,227)		
Single, no children, younger than 18 years, and need to live away from your parent's home to study, train or look for work	\$437.50 (\$11,375)		
Single, no children, 18 years or older and live at parent's home	\$288.10 (\$7,490)		
Single, no children, 18 years or older and need to live away from parent's home	\$437.50 (\$11,375)	Single, no children	\$535.60 (\$13,925)
Single, with children	\$573.30 (\$14,905)	Single, with a dependent child or children	\$579.30 (\$15,061)
Member of a couple, with no children	\$437.50 (\$11,375)	Partnered	\$483.60 each (\$12,573)

Member of a couple, with children	\$480.50 (\$12,493)		
Single, job seeker, principal carer and exempt from Mutual Obligation Requirements (see details at <a href="https://www.humanservices.gov.au/customer/enablers/payment-rates-youth-allowance">https://www.humanservices.gov.au/customer/enablers/payment-rates-youth-allowance</a> )	\$748.10 (\$19,450)	Single principal carer granted an exemption from commitments (see details at <a href="https://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance/how-much-you-can-get">https://www.humanservices.gov.au/customer/services/centrelink/newstart-allowance/how-much-you-can-get</a> )	\$748.10 (\$19,450)
		Single, aged 60 or over, after 9 continuous months on payment	\$579.30 (\$15,061)

Source: Department of Human Services, Australian Government.

Newstart Allowance recipients face high effective marginal tax rates as they take on paid work. Withdrawal of benefits start at 50c in the dollar after earning only \$52 a week, and rise to 60c before the benefit cuts out. The withdrawal rates for Youth Allowance are both less severe, and allow recipients to earn more income before benefits are withdrawn. As stated above, our proposal raises the YBI Level to \$14,068 but begins withdrawals at \$10,000, slightly earlier than the current Youth Allowance withdrawal threshold. As can be seen below, this allows the combination of withdrawal and marginal tax rates to integrate more easily with the existing policy settings. Note also that given the higher base payment, all current Youth Allowance beneficiaries would be left better off. The proposed scales are presented in Table 2.

**Table 2: Proposed ‘Affluence Tested’ Universalism for Youth Allowance**

Market income	Marginal tax rate	Benefit withdrawal rate	Effective marginal tax rate	Benefit received at top of income bracket
0-\$10,000	0	0	0	\$14,068
\$10,001 - \$18,200	0	37c	37c	\$11,034
\$18,201 - \$37,000	19c	18c	37c	\$7,650
\$37,001 - \$87,000	32c	6c	38c	\$4,650
\$87,001 - \$180,000	37c	5c	42c	\$0
\$180,001+	47c	0c	47c	\$0

Source: Authors’ calculations.

The labour force status of young people (see Table 3) is strikingly dissimilar to the core working age population in Australia. The obvious reason for this is the high proportion of young people attending schooling or tertiary education. However, younger people are also overrepresented in terms precarious and low income work. According to analysis by the Australian Institute of Health and Welfare, ‘the proportion of employed youths aged 15-24 who worked on a casual basis (50%) was at least twice as high as for any other age group aged 25 and over’ in 2013 and youth unemployment was twice the national unemployment average. In 2011 the average weekly income for 15-19 year-olds was \$146 and was \$535 for

20-24 year-olds (AIHW, 2015). The total population of persons age 20-24 in 2014 was 1.62 million (AIWH, 2015b).

**Table 3: Participation in education and/or employment among young people aged 15 to 24, by age group, 2005 and 2014 (per cent)**

Education and/or employment status	15–19 years		20–24 years	
	2005	2014	2005	2014
Not in study or work	7.7	7.1	12.0	12.9
Part-time work only	6.0	5.1	9.0	11.7
Part-time study only	0.6	0.7	1.0	1.2
Combining work and study	35.3	32.7	25.7	25.4
Full-time work only	10.8	6.2	41.0	33.3
Full-time study only	39.7	48.4	11.2	15.4

Sources: ABS 2005; AIHW analysis of ABS 2015.

An estimate of the net cost of a YBI along the lines we are proposing could be generated using a microsimulation of Australia’s tax and transfer system. Here we provide only a rough estimate of the gross cost of our proposal to provide an indicator of the likely sums involved (see Table 4). In 2011, only 10.48% of Australians aged 20-24 earned between \$800 and \$999 per week (\$41,600-\$51,948) with a further 12.7% earning over \$1,000. 21.54% earned between \$200 and \$399, 15.92% earned between \$400 and \$599 and 16.9% between \$600 and \$799 per week. This means that 54.36% of Australians age 20-24 has incomes between \$10,400 and \$41,558 per year. 11.32% reported zero income and a further 11.14% had incomes between \$0 and \$199 (AIHW, 2013: 10).

To make our cost estimates conservative we have assumed that all persons age 20-24 in full-time employment earn below \$37,000 per year and receive the corresponding benefit. In addition, we have assumed that all those persons age 20-24 in part-time employment or combining work with study earn below \$18,200 per year. This means that our estimate will overstate the actual cost. Based on these admittedly crude assumptions we estimate a gross cost of approximately **\$17.5 billion**. While a substantial figure, it represents only around 4% of federal government outlays or around 1% of Australia’s GDP.

**Table 4: Estimate of Gross Cost of ‘Affluence Tested’ YBI**

Category	YBI persons eligible (thousands)	YBI payment rate (per year, thousands)	Estimated Cost (millions)
Not in Study or Work	209	\$14,068	\$2,940
Full-Time Study Only	249	\$14,068	\$3,503
Part-Time Study Only	19	\$14,068	\$267
Part-Time Work Only	190	\$11,034	\$2,096
Combining Work and Study	411	\$11,034	\$4,535
Full-Time Work Only	539	\$7,650	\$4,123
Total	1617		\$17,464

Source: Authors’ Calculations based on AIHW, 2015, Figure 4.1.1: Participation of youth aged 15–24 in education and training, by age and qualification, number and per cent, 2014, Table 3: Proposed ‘Affluence Tested’ Youth Basic Income (YBI) Level A and Level B, and Additional material Appendix A supplementary

We are well aware this proposal faces significant challenges. While cheaper than a fully universal BI, it remains expensive. This is particularly because the current eligibility rules make it difficult for many young people to qualify, and force them instead to rely on their parents for income. It is difficult to estimate the saving produced by current spending this proposal would replace, given it spans two payments, however, it is unlikely to be much over \$1 billion. Removing the 'independence' test, we argue, is both administratively and ethically sound, but expensive. The fiscal gap could be filled through a combination of progressive taxation increases and the reduction of regressive tax concessions.

Indeed, we note that the savings from removing tax concessions for owner occupied housing alone would more than cover the costs of both our universal pension and YBI proposals, potentially allowing either a higher rate, or wider age range for each.

Young workers do face some of the most frequent and precarious labour market transitions, but are also often perceived as 'less deserving' than other social groups. This may be somewhat mitigated by two features of the system. First, this proposal is focused on effective marginal tax rates and so emphasises work incentives, and so can be seen as consistent with encouraging work effort. Second, given the current system creates high barriers for young people to be deemed independent, in practice much of the additional spending is likely to be ultimately enjoyed by parents, as the demands on them to fund the consumption of their adult children diminishes. Third, a YBI may go some way towards reducing intergenerational inequality by providing young Australians with the means to pursue a range of goals, such as concentrating on education and training, saving for a house deposit or starting their own business.

Many would argue that our base payment is still far from adequate. We agree. Here we make two notes. First, even though low, our proposal would increase the incomes of the lowest income young people. Second, both this proposal and more generous proposals can be funded through small increases in the top two tax rates. This would allow a higher withdrawal rate for those earning \$87,001-\$180,000, meaning a higher base payment could be fully phased out by \$180,000 while meeting our other principles; and second would raise additional income to fund increased expenditure. A higher base payment would also allow withdrawals to start earlier, ensuring only those on the lowest income received any benefit from the change, and reducing the total cost. We decided to leave some portion of income without any withdrawal to mimic the incentive effects of the current Youth Allowance payment, however, beginning withdrawals earlier has the potential to significantly reduce the cost of the proposal.

Finally, we draw attention to the logical equivalence between this scheme and a universal BI of the same amount introduced alongside a rescaling of the tax system so that Marginal Tax Rates in the rescaled tax system equal the numbers given in Table 2 for Effective Marginal Tax Rates. Both proposals would involve the same incentive structure, the same distributional pattern, and same net fiscal impact. However, a universal payment would involve substantially higher social spending, would necessarily involve higher headline tax

rates, and thus increase recorded levels of taxation. As each of these three consequences is likely to create additional political resistance, we argue our proposal presents a more plausible strategy for advancing the aims of a UBI, targeted at people of working age. Once in place, we also believe an affluence targeted measure is less likely to suffer the political resistance associated with means testing, while also constructing a larger constituency of beneficiaries. Thus, while initially modest, this may also offer a politically realistic strategy to develop a more adequate payment over time.

## **Conclusion**

Basic Income is enjoying a renaissance in public interest and academic debate as people around the world look for solutions to poverty, inequality and economic insecurity. Social scientists have an important role to play in helping to bridge the gap between the “big idea” of Basic Income and existing institutional, economic and cultural contexts. In this paper we adopted a “pathways to basic income” approach as a contribution towards this end. Specifically, we explored two policy ideas that, while falling short of a full UBI, could move Australia towards a more universal and unconditional system of income support. Firstly, we outlined the case for transforming the age pension into a truly universal payment. Second, we put forward a proposal for a Youth Basic Income for those aged 20-24 based on an application of Australia’s current use of ‘affluence testing’ to mimic the structure of a true UBI.

This proposal remains expensive. Combined the two changes are likely to have a net fiscal cost of around \$50b. We have identified a number of measures that could reduce this figure, which would maintain the character of the reforms as steps towards basic income. These include adapting the pension to an affluence tested model similar to our proposal for a YBI, and lowering the threshold at which the YBI is ‘clawed back’. However, even our more expensive model could be fully funded through changes to Australia’s system of tax expenditures. We have argued this makes political sense, as the largest tax expenditures have developed alongside the targeted public pension and thus represent part of a broader political compromise. These exemptions made sense in a world of stable, full time jobs and ubiquitous home ownership, but now directly contribute to growing intergenerational inequalities. This is particularly the case with the capital gains tax exemption for the family home, and associated exemption of the family home from the pension means test.

By combining three reforms - the inclusion of the home in a uniform capital gains tax; universalising the age pension; and introducing a YBI - we argue there are substantial equity and efficiency gains to be made with no or minimal net fiscal impact. We acknowledge that by combining changes to the treatment of income and assets, such changes would likely require phasing. Our proposals build directly on the existing foundations of Australian social policy, and respond to new challenges presented by insecure work, growing wealth inequality and population ageing. By directly addressing the historical and political context of the current set of tax and welfare arrangements, we argue this model is more likely to address the concerns over the policy’s feasibility. Given rising concerns over inequality, and particularly over the intergenerational equity of falling home ownership rates, the model also has the potential to create a new political bargain consistent with an evolution of the old.

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