A Politically Achievable pathway to a

Basic Income in Australia

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Abstract

Australia is a nation with low property taxation, low consumption taxes and no price on carbon. This presents a unique opportunity to pay for some form of basic income through the redistribution of a series of levies in these areas using a fee-and-dividend model. I propose that a series of dividend schemes would be introduced following normal electoral cycles.

Stage 1 would be a temporary "Housing Affordability Benefit Scheme," introducing a property value levy 100% returned as an equal dividend to all Australians. The levy would be offset against the fixed dividend, such that higher-end property owners receive no direct handout, while renters receive the full dividend, and most households receive some nett benefit.

Stage 2 would introduce a "Carbon Dividend", again 100% returned to all Australians, along with a subsequent "Resources Dividend." These multiple dividends would be rolled out under the umbrella of an "Australian National Dividend Scheme" or ANDS.

For Stage 3, the GST would be increased to 15%, but with all additional revenue funding a new "Consumption Dividend", which I will show, also turns the GST into a progressive tax. Optionally, I propose an "Automation Dividend", based on the concept of a "reverse payroll tax" such that companies are taxed on windfall levels of revenue-per-employee - taxing companies on people they do *not* employ due to automation or monopoly, rather than on who they do employ.

I show how these various dividends could be supplemented by savings on existing welfare schemes and tax breaks to reach the level approaching $15,000 per adult / $7,500 per child universal payment, while remaining revenue neutral to the government. I argue that the overall ANDS dividend should continue to be delivered only as a tax offset to high end property owners to avoid the bogeyman of "handouts to millionaires".

Finally, I will discuss how the ANDS would reduce the size of government, take pressure off the minimum wage, replace unemployment benefits, and supplement the old-age pension.

The following is an expanded version of the presentation I gave at the BIEN 2022.

A Basic Income in Australia?

It must be said at the outset that there is already enough negative baggage to make a direct pitch for something labelled as "basic income" just about untenable in Australia. The Labor party has regularly slapped it down, and only the Greens party embraces the concept, but never much more than a throwaway line on the hustings. Paying for a basic income through the existing tax system would require hikes in tax rates that no sane government would propose. So where to begin?

For a start, whoever is in power, I believe the language of the right would be more effective in making headway towards some form of BI - certainly in Australia. Something along the lines of:

> *"You are a shareholder in your country, you deserve a dividend!"*

Rather than:

> *"A basic income is your unconditional right!"*

In the Australian vernacular, we believe in a "fair go" but not a "free go", and the language used can help shift the argument more to the political centre. And any proposal must also somehow side-step the standard slap-down of "Payments to millionaires!", regularly heard from the Labor side of politics over recent years, to which there is no easy three-word comeback. With all that in mind I believe policy makers would need to - in a sense - sneak up on a basic income in a series of achievable steps, over two or more electoral cycles.

So, where to start? Australia is a nation with low property taxation, low consumption taxes and no price on carbon, and overall Australia's tax take is 28% of GDP compared to the 34% OECD average, which presents us with an opportunity to pay for some form of BI through the redistribution of a series of levies in these areas.

More specifically, our GST consumption tax rate is only 10% compared to around 15% in much of the EU and NZ, etc. There is no land tax on first properties across Australia, apart from an opt-in scheme in NSW which has yet to have significant uptake. There is no carbon tax since the Carbon Pollution Reduction Scheme (CPRS) was repealed in 2014, and no federal mining taxes since the Mineral Resource Rent Tax (MRRT) was also repealed at around that time. There is Land Tax on investment properties, and state-based mining royalties, and petrol excise is in effect an indirect tax on carbon emissions, which must be considered if any new levies are introduced, but all in all, this is a unique opportunity to pay for a basic income without touching income tax. (I am reminded of a rare alignment of 5 outer planets in the 1970s that led to NASA's hurriedly planned grand tour of the solar system with the Voyager spacecraft!)

So, what I am proposing will be based on a fee-and-dividend model, that is, some form of tax, levy, or other impost, partially or fully returned as an equal dividend to a target population. An example is the Alaska Permanent Fund Dividend, which has paid an annual dividend based on revenue from oil production to every Alaskan since 1976 and is often cited as a real-world example of a basic income in practice. Another good example is in Canadian province of British Columbia - where revenue from their "carbon tax" is returned to all households as a dividend – and has had popular support for over 10 years.

In the Australia context, multiple levy-based dividend schemes could reach the level of a modest basic income while remaining revenue neutral to the overall economy, and without increasing income tax. This would be achieved across a number of federal electoral cycles, with each stage tied to some pressing political objective, and not to some ideological goal, and certainly not pre-announced as the first step on the path to a basic income! The scheme will eventually be known as the "Australian National Dividend Scheme" or ANDS, bringing together the following set of dividend components:

- a Housing Affordability Dividend, initially delivered as a standalone scheme and funded through a marginal property value levy
- a Carbon Dividend, funded through a carbon emissions levy
- a Resources Dividend, funded through a minerals resource rent tax
- a Consumption Dividend, funded through an increase of the GST to 15%
- a Welfare Dividend, funded through the savings to the existing welfare systems
- an Automation Dividend, funded through what a "negative payroll tax"

Initial modelling of the ANDS shows how each of these dividend sub-schemes contribute to a total annual dividend of $15,000 per adult and $7,500 per child.

ANDS Costing	Pool $B	Adult	Child	Family of 4	Notes
Housing Affordability Dividend	$150.0	$6,508	$3,254	$19,523	Marginal 1.5% levy raised to 2.0% later
Carbon Dividend	$30.0	$1,302	$651	$3,905	Based on $60 / tonne international price
Resource Dividend	$10.0	$434	$217	$1,302	Super profits and/or Mining royalty levy
Consumption Dividend	$32.5	$1,410	$705	$4,230	GST to 15%, and 5% to ANDS
Automation Dividend	$15.0	$651	$325	$1,952	Reverse payroll tax
Welfare Dividend	$148.3	$6,432	$3,216	$19,295	Funded from welfare savings
Dividend Pool → Dividend	**$345.8**	**$15,000**	**$7,500**	**$45,000**	Note: Various state "compensation" deductions totalling ~$40B reduce the total pool

Table 1. ANDS dividend contributions.

While the benefit is universal, it will be tied to a property value levy that all property owners will subject to, which we will get to next. Figure 1 shows how households across the wealth spectrum would all receive an annual benefit of around $45,000 *less any property value levy owed*. The top 5% of wealthiest property owners would cross a property value threshold (around $2.3 million in NSW) where they would receive no nett payment and flip over to paying a small marginal levy. This is key to addressing the argument against "Payments to Millionaires!". But we are getting ahead of ourselves!

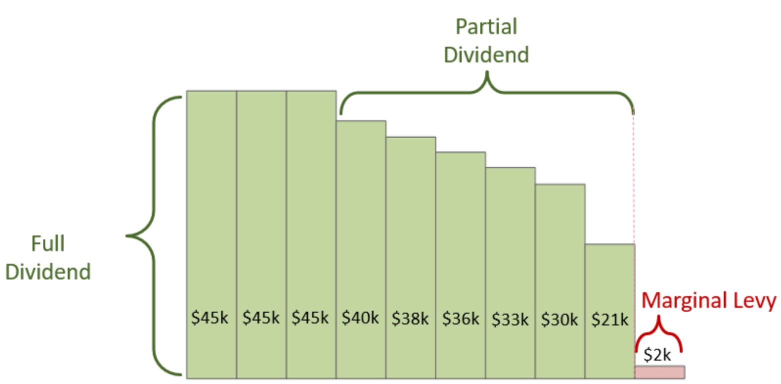


Figure 1. Annual dividend across property wealth deciles for Families-of-four.

Stage 1 - Housing Affordability

We have a HA "crisis" in this country and as Winston Churchill once quipped: "never let a good crisis go to waste". So, for Stage 1 on our journey the government would propose a "Housing Affordability Benefit Scheme" involving a temporary annual levy on residential property, to give first home buyers an ongoing annual benefit to gradually build a deposit, as compared with today's one-off "First Home Owner Grant" sugar hit.

The basic idea is that a 1.5% *marginal* levy would be applied to property above a threshold value, for example, 1.5% for every dollar above say $1.2M in NSW (thresholds would be state-based) and the resulting revenue would be distributed to the ~30% of non-property owning households as a fixed benefit.

Now in a simple targeted form such a levy would negatively impact a large proportion of households - depending on where the levy threshold was set, and that is probably too much of a political risk to take to an election. **And this is where the fee-and-dividend model fits in.**

What I am proposing is that the levy would apply to *all* property, funding a universal dividend to *all* households, not just the bottom 30%. As shown in Figure 2 this approach leaves 60% of households *better off* (in green), not just first home seekers (in red box).

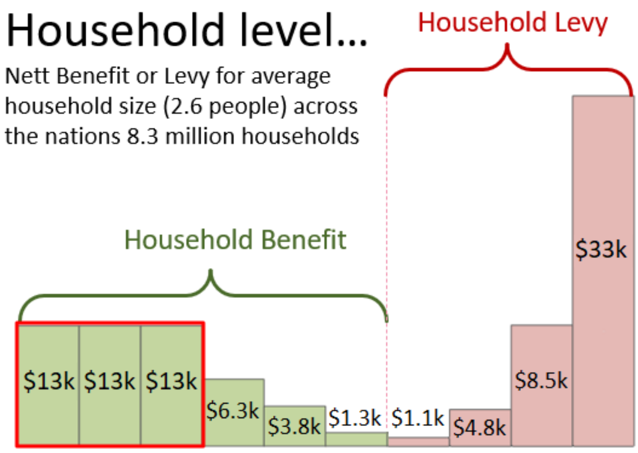


Figure 2. HABS benefit averaged across the nations households.

Put simply:

- Renters / first home seekers receive a full dividend (~$13,000 annually)
- Most property-owning "middle Australia" households receive a partial dividend (~$13,000 less 1.5% of their property value)
- Higher end property owners pay a marginal levy (1.5% for every dollar above a threshold of around $1.0M)

The important point is that only the top 40% of households are out-of-pocket. Now this is a rather artificial example as the average household size is 2.6 people, and the benefit will vary from state to state, depending on average property prices variations. For example, for a family-of-four in NSW the dividend is around $17,000, and the threshold where the marginal levy start to kicks in is about $1.3M.

(By the end of the ANDS scheme, the threshold will be $2.25M, but we will get to that.)

So, the HABS scheme not only helps renters to get into the property market, but also helps mortgagees to meet their repayments with a partial dividend. Politically, the argument for the HABS is strong, and given that 60-70% of households would be better off, I believe there could be broad support for such an idea. The sales pitch for this scheme could also encompass the bigger issue of property rights, that is, our birthright to an equal share of the nation's land.

Important note. A large proportion of property owners in the 10^{th} decile would own more than one property, and therefore be subject to existing land taxes on second properties that generally exceed the levy rate. These properties would be exempted from the HABS levy.

That's the HABS in a nutshell, but there are various important implementation details and conditions that I have not yet covered, as discussed in Appendix 1.

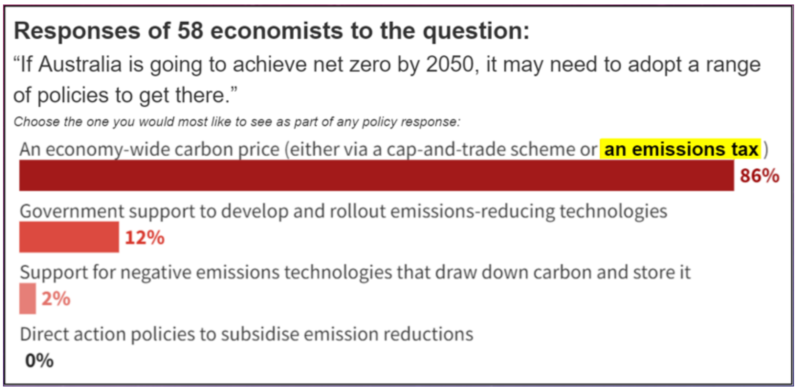
So let's assume that the HABS is voted for and implemented at the 1.5% marginal rate. To drill the positive message home, households would soon receive their first regular quarterly dividend, and a detailed statement. The statement is a four-time-a-year reminder that money is being debited to your account. In fact, the first round of dividends may be via a cheque in the mail, which was the approach taken in British Columbia when their Carbon Tax was first rolled out. This minor imposition further reinforces the reality of the payment and serves as an initial audit of the payment system.

As of 2022, there is an incumbent government with a strong mandate for progressive change, so the lead up to the next federal poll would seem to be an ideal opportunity to finally deal directly with Housing Affordability - and stealthily begin our journey towards a Basic Income.

Stage 2 – Carbon Dividend – a Peoples Tax!

With the HABS in place the population is now used to the idea of their quarterly dividend and most see their bank balance increasing - if modestly. With the nation's commitment to a 2030 carbon emissions target looming the government could use the opportunity to now propose a "Carbon Dividend", again 100% returned to all Australians, as an election commitment.

Australia currently has no price on carbon, and the vast majority of economists are on board with some form of emissions tax. The political argument is clear and again there is a win-win: the government is helped to reach the 2030 target and every household sees an even larger benefit each quarter and of course industry will pay the tax with the benefit going straight to every household.



Unlike the HABS, the Carbon Dividend is conceptually very simple. A carbon price would be set close to international carbon market prices, currently around $60 per tonne, and would have similar broad industry scope as the now defunct CPRS, covering

- Energy generation
- Transport
- Fugitive emissions
- Industrial processes
- Agriculture
- Waste

The scheme would be a straight levy rather than a cap-and-trade model, although companies would still free to trade carbon credits on other markets. The scheme would be national, resulting in a common dividend for every adult Australian adult, and again, a half share per child. At $60 per tonne, the levy would raise about $30B, and the benefit would be in the range $4,000 for every family-of-four across the nation.

Politically, the electorate would just need to be sold on helping to meet the nation's 2030 targets, and given the success of the "teal" independents in the 2022 election it seems there would be much less strident opposition to a carbon price than in the 2010's. There is no doubt that screams of "No carbon tax!" would still need to be countered, but with the HABS already in place, the electorate would now have a clear understanding that this is a "tax" that goes into their pockets. To stay on the front foot the government may want to actively introduce the notion of a "People's Tax" into the vernacular. Economically, any carbon pricing scheme will have side effects, e.g. inflation pressure, so the government may choose an initially lower carbon price, and then target the $60 over time.

Stage 2-3 – the Australian National Dividend Scheme

The Carbon Dividend would be rolled out in parallel with the initial Housing Affordability Benefit Scheme, but now under the banner of the "Australian National Dividend Scheme", or ANDS. Although the HABS was originally introduced as a temporary measure, this was really a political expedient to allow the electorate to "try before they buy". The fact that 60-70% of households will now be accustomed to the benefit, it would be retained as the basis of the broader ANDS to come and would become known as the Housing Affordability Dividend from this point.

A third initial component of the ANDS will be a Welfare Savings Dividend. As the overall ANDS payout increases, there will be an ever-increasing saving from previously expensive welfare programs, and this would be rolled back into the ANDS as a Welfare Dividend. Some of this saving would be achieved by the "raising all boats" effect which raises people above various welfare and tax-break thresholds, and part of this will be through legislative change, for example, the Jobseeker benefit would now become a "top up" of the ANDS benefit, and similarly for pensions and child benefits, such that no-one is disadvantaged. Other savings may be made through re-assessment of unrelated tax-breaks, for example, if negative gearing changes were seen to directly benefit families through the Welfare dividend, the electorate may be more likely to vote for such changes.

The overall savings would start small but would become huge over time, as something like $200 billion is currently spent on welfare and tax breaks, and 50-75% of this could be saved by the end of the scheme. (There is also a positive feedback or "tail-chasing" effect, such that any increase to the Welfare Dividend would increase subsequent welfare savings in the next cycle.)

And of course once the ANDS reaches the $15k/$7.5 target Jobseeker payments and family benefits would be entirely covered by the ANDS.

Resources Dividend

With Property, Carbon, and Welfare dividends in place, the next area of low-hanging fruit for the ANDS would be a Resources Dividend. This would re-introduce a levy on mining super-profits, similar to the "Mineral Resource Rent Tax" that was introduced in 2011 and repealed in 2014.

The Resources Dividend would be positioned as a second "People's Tax" along with the Carbon Dividend. Families would now directly benefit from the profits of the mining sector, and the political messaging would pivot away from…"*A bad tax penalising the mining sector"* to "Your share in the nation's wealth". Which is a similar pivot that would occur for the Carbon Dividend. Over time there would be calls to *increase* these people's taxes!

I also note that it a new national Mining royalties levy may also be introduced into the Resources Dividend to increase the national level share of the nation's resource wealth. (Mining royalties are currently state based and subject only to state-level political drivers.)

No detailed modelling has been done but we can expect revenue to reach at least $10B, and a resulting benefit of around $1,300 for every family-of-four across the nation.

Consumption Dividend

Presuming that the ANDS is now entrenched as a popular scheme and given that low-hanging fruit has been exploited, the government may be ready to take a deep breath and bring the GST into the conversation. The GST is the final big piece of the puzzle to expand the revenue base of the ANDS to support a substantial basic income. As mentioned, the 10% GST is low by OECD standards, so an increase to 15% is not unreasonable, but is still a political challenge – especially from the left which has historically painted the GST as a non-progressive tax that hits the poor hardest.

But if the increased 5% portion of the GST was partitioned off into a Consumption Dividend, the GST suddenly becomes a progressive tax as I will explain. The proposal is that the first 10% of the GST would continue to go to the states as is currently the case, and I can't see this changing, as this is political battle that no federal government would want to take on. Only the additional 5% GST would all be 100% returned as a dividend. On recent GST revenue numbers, the dividend portion would be around an annual $5000 for a family-of-4 – rich or poor!

So what is the point of all this GST give and take? Table 2 shows household spending habits across the population and put simply the wealthy households spend a lot more and pay a lot more GST than their less-wealthy counterparts.

Population Quintiles by wealth	**Q1**	Q2	Q3	Q4	**Q5**
Spend percentage	**10%**	14%	19%	24%	**33%**
Ave spend per family-of-4, $k	$50.0	$70.0	$95.0	$120.0	$165.0
15% GST paid, $k	$7.5	$10.5	$14.3	$18.0	$24.8
Dividend from GST "B", $k	$5.0	$5.0	$5.0	$5.0	$5.0
***Effective* GST rate**	**5.0%**	7.9%	9.7%	10.8%	**12.0%**

Table 2. HABS benefit averaged across the nation's households

Looking at column 1 – a typical struggling family might pay $7500 in GST, but get back $5000 - nearly 2-thirds - so their *effective* GST is 5%

Looking at column 5 – a wealthier family might pay $25,000 in GST, but also gets back $5000 – which is an *effective* GST of 12%

So, crucial to the political argument for the Consumption Dividend is that the GST now effectively becomes a progressive tax, ranging from 5% to 12% across 5 wealth quintiles. Today the GST is a non-progressive tax fixed at 10% so most would be better off in the new scheme.

The downside as with the other dividends is a slight inflationary push, but again it comes down to political expediency: the risk of something vague like "inflationary pressure" versus a tangible "fistful of dollars" each quarter.

With the Consumption Dividend in place, the Welfare Dividend would grow to the point that most legacy welfare schemes have morphed into a series of safety nets, and the ANDS will be close to our hypothetical target of $15,000 per adult and $7500 per child.

Automation Dividend

The final pillar of the ANDS would be some form of levy on automation in the workplace, that is, forms of automation that replaces human workers. The inexorable increase in automation in our modern societies of course feeds into the basic income narrative. Humans will increasingly be replaced by machines and will eventually, so the argument goes, become reliant on a basic income. There is already much talk about the need for a "robot tax", but also the futility of a such a tax - given the near impossibility of actually defining a "robot". What is proposed here is something much more practical which will be referred to as a "Reverse Payroll Tax".

Today, most companies, apart from very small businesses pay tax on the people they employ. This is well known to be a regressive type of tax that simply feeds into reduced worker salaries – in that sense workers effectively pay a tax to work. But rather than simply move to abolish payroll tax, the system could be transformed into a Reverse Payroll Tax system where companies would – to put it simply - pay tax on the people they do **not** employ.

The basic mechanism is to compare the revenue that employees generate for a company (Revenue Per Employee, or RPE) with the median salary paid (Median Employee Cost, or MEC) by the company. Let's refer to RPE/MEC as the companies Leverage Factor, or LF.

Think of a worker Joe, churning out product worth twice his salary - a Leverage Factor of 2. This is pretty good outcome for his boss, but so last century! In the low tech world an LF of 2 would still be considered healthy, and today that company would pay a single unit of payroll tax for that worker, which sounds reasonable. But for a high-tech company like, say, Google, they might generate $10 million per median $200k employee – an Leverage Factor of 50! It's as if 49 shadow employees are working for free.

So for the Reverse Payroll Tax, companies would be required to report their RPE and their MEC and pay tax based on LF-1 shadow employees (and perhaps other factors related to the cost of running their business.)

On the other hand, consider that a big retailer with a large workforce with an LF of 1.3 who would pay RPT on only 0.3 "shadow employees" per actual employee. Compare this to a retailer today paying 1 unit of payroll tax per worker, instead of only 0.3 units under the RPT. Over a large workforce that's a huge saving. And consider a start-up or struggling business with an LF *less than* 1 which would pay nothing under the new model.

Although the Reverse Payroll Tax system would produce only modest revenue changes compared with the current payroll tax regime, this revenue should be tied into the ANDS as it natural home. There would therefore need to be compensation to the states assuming they would need to cut current payroll taxes

The bottom line is that labour intensive companies would pay less payroll tax and highly automated companies would pay more tax - and households would pick up a slice in the Automation Dividend. This new employment friendly "Reverse Payroll Tax" would replace todays regressive Payroll Taxes run at the state level, and of course the states would need to be compensated.

ANDS - Final Observations

First let me list some take-aways and addition facts

- The final ANDS provides a modest basic income of $15,000/$7,500 conditional only on the Housing Affordability Levy which is baked into the scheme.
- The property levy would be state based but federally managed - to avoid revenue drift and turf wars
- There would also be deferral of levies for older Australians, and compensation to avoid any double tax on investment properties and so forth.
- By lifting all boats and including children as beneficiaries means that all current targeted welfare, from Jobseeker to Family Tax benefit can be scaled back accordingly
- The ANDS should be implemented independent of governments for its day to day running, having said that, the scheme would be largely self-regulating, for example property value increase will automatically increase the HABS payout, and so forth.
- On the other hand, the ANDS dividend is not guaranteed, so the government may want to legislate to go into small deficit to fund a guaranteed target each year

Once the ANDS is up to speed it would

- Reduce the size of government, as welfare programs are scaled back, both through natural attrition, and legislative change
- Reduce unemployment as people become more flexible in the work they will accept
- Take pressure off the minimum wage – for obvious reasons
- Remove the effective tax of going off Jobseeker for a low paid job
- Supplement the old-age pension, and other welfare programs

I won't go any further on expounding the benefits of a basic income, as that is well documented elsewhere in numerous studies.

So there we have it: A Politically Achievable pathway to a Basic Income in Australia!

Appendix 1 – A few additional technical details

The previous sections have hopefully given the reader a good sense of the ANDS scheme without getting to bogged down in detail. At this point I will go into further detail.

Firstly, I haven't discussed is the timing of Housing Affordability rates increases which would need to reach at least 2%, and probably closer to 2.3% to fully fund the scheme. This would need to be planned for while juggling the political imperative of the day. Alternatively, the GST rate could be increased beyond the 15% modelled here if the Consumption Dividend proved popular.

The Resources dividend returns has only undergone superficial analysis, but is not a huge contributor to the ANDS bottom line.

The HABS discussion mainly referenced household dividends for average sized household (which turns out to be 2.6 people) using average property value ($10.1 trillion dollars divided by 9,800,000 dwellings), and I also mentioned Family-of-4 for illustration.

But as I have mentioned in passing the HA Dividend will be state-based, with separate revenue pools, thresholds and dividends. Otherwise, for example, NSW would be subsidising Tasmania where property values are much lower, as HABS revenue flowed across state borders.

The other key point is that dividends are actually allocated to individuals but dispensed at the household level, so the "household dividend" is shorthand for the overall allocation. A Family-of-4 including 2 children would be allocated 2 x $15k and 2 x $7.5, or $45,000 (under the final ANDS that is.) By default, that $45k would be subtracted from any levy owed by the household. There would of be rules around this, e.g. to accommodate an adult son or daughter living at home and saving for a deposit.

A related point to make is that the property threshold for property owners that owe a nett levy is just another way of expressing the dividend. So, a $45,000 dividend allocation translates to a $2.25 million property value threshold ($45,000 divided by 2%).

In addition, property rich, but cash poor Australians, such as retirees, would have the option to defer any levies owed on their property until sale.

I have done deeper analysis on the savings to the Welfare System, but suffice to say that lifting all boats and including children as beneficiaries means that all current targeted welfare, from Jobseeker to Family Tax benefit can be scaled back accordingly. Some initial number indicate a 78% saving on the nations $200B+ welfare budget, but that did not cover how the NDIS might fit in.

The HABS is by far the most complex part of the journey to the ANDS, and there are various implementation details and conditions that I have not yet explained, in particular, that properties which already attract land tax, such as investment rental properties, would be subject to a scaled back levy.

This is important not just to deal with double taxing, but also because any additional costs borne by landlords would tend to be passed on to tenants, somewhat defeating the purpose of the HABS. State based land tax is messy and inconsistent, but a floor level property levy on second properties seems the best solution.

Preliminary analysis indicates a sweet spot floor levy of around 0.5%, but this would vary by state. This means for example that a landlord with one small investment property which attracts only say 0.3% Land Tax, would only be charged a partial levy to reach 0.5%. Land Tax will almost always exceed 0.5% (including for second properties owned by Labor and Liberal senators!)

There is no doubt other devil in the details that would need to be addressed if such a scheme were to be pursued, but nothing that would fundamentally invalidate the basic analysis outlined in this paper.