

Reshuffling tax liabilities does not save the AVERAGE citizen a cent and deficits defer taxes which must be paid later. If taxes are to be cut, as opposed to fiddled, government expenditure must be cut. It is easy to generalise, but not many people will say where to cut the biggest budget item, welfare.

Welfare systems are designed to win votes, maintain jobs in the welfare industry, redistribute income (vertical equity), equalise the post tax/welfare spending power of people or households with similar incomes but dissimilar commitments (horizontal equity), and ensure that no one suffers undue hardship. One of the reasons welfare systems are expensive and ineffective is that these aims conflict.

Both Labor and Liberal Parties say they believe in needs-based welfare; that poverty alleviation---a safety net---will be the prime aim of their welfare system. Don't take them too seriously. They direct most welfare money to the middle class who are the swinging voters. If the half million poorest households were to share just the Commonwealth's welfare budget they would enjoy annual incomes of \$41,520. The most obvious barrier to reforms which target welfare on the poor is political hypocrisy but hypocrisy is not the only difficulty.

'Need' is not easily identified and governments employ several more or less effective means to hit or miss the needy when they redistribute the taxes. One of these is to categorise people as elderly, single parent, child, unemployed etc. offering them pensions, single parents' benefits, family allowances, unemployment benefits etc. according to category. Categorisation alone causes a lot of money to be paid to people most taxpayers would not say were 'needy'.

Identifying services such as health care and education and targeting these is even less effective. 'Free' or subsidised services, sometimes called a social wage, not only benefit people who can provide for themselves but they are often not what the recipients would choose if given the cost of the service in cash. For instance many people would prefer the private equivalent of a public education or public hospital bed; an old man might prefer tobacco to free bus travel. The social wage not only mostly misses the target population but often misses the most wanted services as well.

Another way to target the needy is to supplement low incomes. This is better; but it also is difficult. Is a widow with capital but little income, a farmer in a drought, or an unemployed crayfisherman or shearer between seasons poor? Should people be expected to use their capital before calling on the taxpayer? How short a period without income induces poverty and what is an appropriate accounting period: seven days as it is for the dole, a year, five years or a lifetime?

The call that must be made on the available income is also relevant. A beach bum may live fairly comfortably on the dole while a labourer with a job, a wife and five kids, might have big problems. Efficient household managers live more comfortably than inefficient---old single women manage better than old single men. The public are less unhappy subsidising a poor person's education than his drinking.

To identify 'the poor' more or less sophisticated poverty scales, which purport to take into account both household revenue and necessary expenditure, have been constructed. They tell us nothing meaningful about how many poor there are but they do help to identify the least wealthy. However, there is less agreement among them than we might hope.

Paul Galagher and Chris Foster (policy advisors with the Policy Coordination Unit) attempted to target a hypothetical \$100 million on 'poor' children. If the family allowance were increased for the first child only 15% of the children benefiting would have been 'poor'. If the family allowance had been indexed 17% would have been poor. But if it had been spent on single mums 76% could have gone to 'poor' children.

Targeting the payments on a group such as single mothers identifies another hurdle raised in the way of needs-based welfare. Welfare payments change the way people behave. The fact of pensions and benefits encourages people to retire younger, stay out of work longer, bear what are euphemistically called fatherless children and default on maintainance.

If the benefit is targeted on the poor---income tested---it encourages people to ensure that their incomes are low (or unrecorded). Although most social security payments are withdrawn gradually, in a few cases, because of the combined effect of a low wage, benefit withdrawal, and taxation, disposable income actually falls when a welfare recipient gets a job.

Universal welfare payments avoid these so called poverty traps. But the revenue requirements of universal benefits are high. Universal payments must be so thinly spread that people with no other income are destitute or taxes must be so high that incentive and the economy are crippled. Catch 22!

In practice the numbers who qualify for the benefits must be reduced by restricting eligibility, say by raising the retirement age; liability for payment must be sheeted home to someone other than the taxpayer, say by catching defaulting fathers or requiring parents to keep their children longer; or the benefit must be made less attractive, say, by treating it as a loan to be repaid later in life or imposing some more or less onerous obligation, such as work, upon the recipient.