

MEANS TESTS

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Society once expected secular charitable organisations and churches to transfer money from richer people to poorer people, whereas modern society asks governments to undertake this task. Most people would say that governments do it better and do more of it, but I have seen it argued of the United States, that in 1850 charities transferred about the same proportion of GDP from richer to poorer as the US Government does now.

At first blush this is hard to believe of the US, and a similar claim made of Australia would be equally surprising. But when we reflect upon who gets Family Allowances, Aged Persons Pensions, Unemployment Benefits, and Service Pensions and who pays the taxes, we notice that much is paid to people above median spending power and much paid by people below that median.

The free rider problem was surely the reason that governments were invited into the transfer payments business - without the coercive authority of the state how can the "charitable" man be sure that the other fellow is paying his share? Once the churches lost some of their ability to get money out of people by offering them an alternative to eternal damnation, the advent of state charity was inevitable and desirable. Also some welfare recipients prefer to receive a pension through a large and impersonal organisation which disguises donors, and government welfare probably treats recipients more equally than can private charity. Now that the community has lost the habit of voluntarism it might be impossible to go back to it without first showing donors the face of real misery.

None of the foregoing explains why governments forgot their original task, and got into the business of taxing the poor and subsidising the rich. Another explanation is needed and isn't hard to find. Subsidising the middle class was a visible act while inflation and progressive tax scales (bracket creep) taxed the poor by stealth. What is more, the articulate middle class are troublesome; the poor are not - at least not until they riot.

Many people brought up in the Juda-Christian, Islamic, Buddhist, you name it, tradition believe that charity is a moral obligation and it is wrong of the well-to-do to dip their fingers in the alms box. Though many try to rationalise their way out of its implications, this is still a widely held attitude.

When John Elliott, treasurer of the Victorian Liberal Party, flew into Australia and congratulated Hawke on his efforts to means test the Aged Persons' Pension he was merely reflecting this attitude. But because the Leader of the Opposition had expressed a contrary view, all hell broke loose. In the hubbub about whether Mr. Elliott was splitting the Party, running for Leader, etc., almost nobody asked the only important question: was not Mr. Elliott correct? It is a sorry indictment of Australian politics that a momentous and inescapable issue should have been swamped in speculation about personalities.

Without thinking through the implications the Liberal Party seems to be heading down the universal welfare path. One implication which it ought to think through is that if it insists on subsidising the rich, it will be hard put to avoid being labelled the rich man's party - Tory without a commitment to "noblesse oblige".

Both political parties should announce where it is that they wish to stand on this issue. They have three basic positions to stand on, although without too much difficulty these could be straddled. The positions are: (needs based benefits with low tax; universal but low benefits for all including the poor, with low tax; and universal welfare with high taxation.) The implications of the last seem to be clouded by misconceptions held by such unlikely bedfellows as the ACTU, white collar unions, several Labor MPs and several Liberal MPs.

One serious misconception is that deficit budgeting avoids high taxes. It doesn't. It merely defers taxes to later years.

Another is that means tests necessarily inhibit thrift. This is not certain. The marginal rewards of saving will undoubtedly be reduced for those people whose savings do not place them above or leave them below the range over which the means test bites. On that account we should expect savings to be less - why

save a dollar to benefit by only fifty cents ( with a steep taper) or sixty-seven cents (with a more gradual taper) ? (But a pension itself reduces the incentive to save)- why save if the government is to do it for you ? These are called the substitution and income effects respectively and they act in opposite ways. Further, (high taxes associated with high government expenditure reduce the capacity to save.)

The incentive to work is similarly influenced by both substitution and income effects of taxation and pensions.

A further common misconception is that the taxation system necessary to pay for welfare is, in the economic sense, neutral. It is not for two reasons. First, the extraordinary gyrations of taxpayers avoiding tax are not neutral; why earn a dollar when you can earn eighty cents untaxed ? Second, progressive income tax and welfare together take from people with a high propensity to invest and give to people with a high propensity to consume. This is bad for future wealth creation. To some extent the tax subsidies allowed to savings placed in life assurance and occupational superannuation schemes offset this bias towards consumption. Admitting that it is a second best alternative, it remains the best we have. It has been mooted that universal pensions might be financed by taxing superannuation schemes. If this were to be done it would prejudice investment to an even greater extent than an equivalent straight forward increase in tax rates.

Any party which chooses the universal welfare high tax option has a big selling job in front of it. Labor has to explain high taxes to the ACTU and the Liberals have to adopt the traditional/socialist social wage rhetoric. They will need to make a not unspectacular leap to the left over Labor's head. It will be funny to watch, but I won't know whether to laugh or cry.

Finally, any talk of universal welfare until the deficit is eliminated and a tax base is adopted which can support it, is plainly irresponsible.

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