

Public Equity and Social Assistance

Keith Rankin, Unitec Institute of Technology, Auckland, New Zealand
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Universal Basic Income as Public Equity

In a series of recent articles, a book-chapter, and a presentation to the New Zealand Fabian Society, I have discussed how, practically, a Universal Basic Income – as a core component of a conceptual reform of income taxes – can be implemented in New Zealand, and can open the door to reveal a future that does not require there to be poverty in the midst of plenty.

- [Universal Basic Income as a Reconceptualisation of Income Tax](#), *Scoop*, 24 Mar 2016
- [Universal Basic Income and Income Tax Reform](#), *Briefing Papers*, 22 Mar 2016
- [Universal Basic Income and Public Equity](#), presentation to Fabian Society, 23 Feb 2016
- [A Universal Basic Income in New Zealand?](#) *Evening Report*, 23 Feb 2016
- 'Basic Income as Public Equity: The New Zealand Case', chapter in [Basic Income in Australia and New Zealand; Perspectives from the Neoliberal Frontier](#); edited by J Mays, G Marston and J Tomlinson (Palgrave Macmillan 2016)
- [Hope: The Four-way Division of Income](#), *Evening Report*, 24 Oct 2015

Here I propose to clarify the principal steps of the required policy reform. Also I propose to move away from the name 'Universal Basic Income'; a name that, in the present debate, has come to too many to mean a rigid and politically unsaleable proposal, funded (often implicitly) through levels of taxation much higher than New Zealanders are familiar with.

The central concept that can take us forward is that of 'public equity'; a concept of rights-based publicly-sourced income that finds common ground between the philosophies of the 'capitalist right' and the 'egalitarian left'. The presumption is that the public is an equity partner to market production. As such, public equity is a way of demarking the division between publicly-sourced and privately-sourced incomes, and can facilitate the regrowth of a liberal capitalist economic order. Public equity can become a way of distributing some income equally, enabling the gains from productivity increases to be available to all, and making it easier for people to make more sustainable and less pressured life choices.

The underlying concepts are not usefully injected into the party-political environment of a general election campaign, where sound-bites, bumper stickers and pledge-cards reign. Rather the ideas presented here, which are essentially apolitical – all political parties represented in the New Zealand parliament favour liberal capitalism – may be incorporated into public finance reform in New Zealand from as soon as 2018, regardless of who becomes government after the 2017 election.

Before looking at public equity reform and its stages, we need to take note of the current income tax scale, and to appreciate that the way it is portrayed to the public is not the only way that it can be understood.

New Zealand Income Tax in 2017

The *traditional* way of understanding income taxes and benefits is the 'Graduated Tax Conditional Benefit' accounting approach. The *new* approach has been called 'Basic Income Flat Tax', and takes a more simple and equitable method, without the unprincipled netting of taxes with benefits arising from the tax-graduation process ('graduation benefits'), rendering those benefits invisible. As a result of this invisibility the inclusive concept of 'benefits' has morphed into that of 'hand-outs' or 'transfers'.

Public equity reform essentially follows the 'Basic Income Flat Tax' approach (discussed by Anthony Atkinson – the "godfather of inequality research" according to *The Economist* – in his 1995 book *Public Economics in Action*), while adopting a name – public equity – that conveys as simply as possible what this approach means.

To appreciate the reformed approach, it is first necessary to review the traditional 'graduated' approach to income tax. Table 1 below shows New Zealand's present tax scale, and an alternative, both presented in the traditional way. In New Zealand, 33 cents in the dollar (33%) is the top marginal rate of income tax and the rate applied to family trusts and the like.

Table 1	
NZ Income Tax in 2017	
Tax Bracket	Marginal Tax Rate
\$0 to \$14,000	10.5%
\$14,001 to \$48,000	17.5%
\$48,001 to \$70,000	30.0%
\$70,001 plus	33.0%
NZ Income Tax alternative	
Tax Bracket	Tax Rate
\$0 to \$9,370	0.0%
\$9,371 to \$48,000	17.5%
\$48,001 plus	33.0%

Whereas the top marginal rate of 33 percent applies to income in excess of \$70,000, thanks to the graduations (the concessionary marginal rates) a person grossing \$70,000 is said to pay \$14,020 of income tax, 20 percent of that \$70,000. If that person paid 33 percent tax on all their income,

they would pay \$23,100 in income tax. The difference between these two amounts of tax is \$9,080. If we apply the 'Basic Income Flat Tax' accounting approach instead of the traditional approach, this \$9,080 (\$175 per week) becomes the maximum 'basic income' that this new approach reveals.

The alternative scale presented in Table 1 also yields a 'basic income' of \$175 per week with a 33 percent 'flat tax'. The main difference is that, with the alternative scale, a person only has to gross \$48,000 of annual income to get the maximum basic income, and workers on lower incomes get a 'tax cut' (traditional accounting approach) that amounts to an increased basic income (new accounting approach) for people not presently receiving the \$175 per week maximum. Unlike tax cuts in the past, this alternative scale only raises the disposable incomes of people on modest incomes.

At the time of writing, it seems unlikely that income tax changes will be implemented in New Zealand before October 2017. The alternative tax scale suggested here is a tax scale that could meet widespread public approval, whichever political party might propose it as policy for the 2017 general election. And it is a tax scale that, in itself, can facilitate the process of public reconceptualisation of income taxes and benefits.

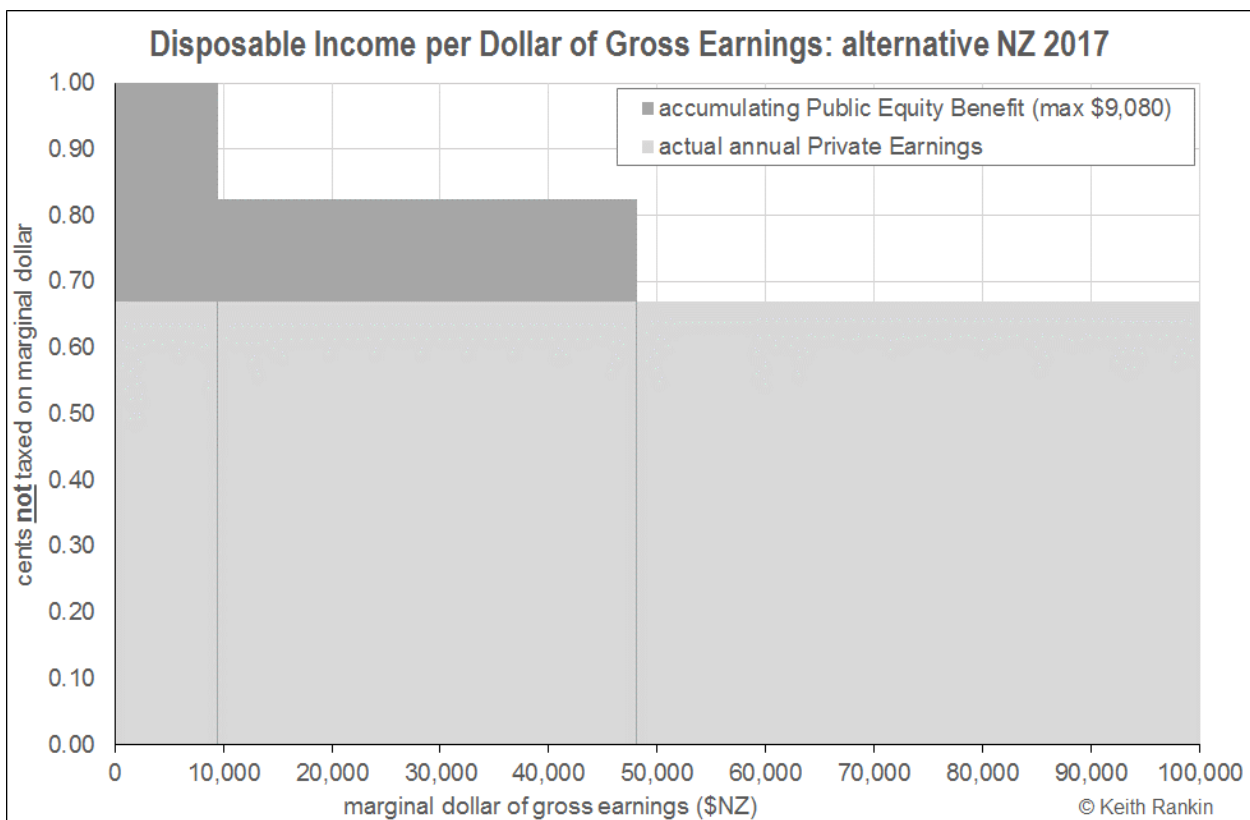
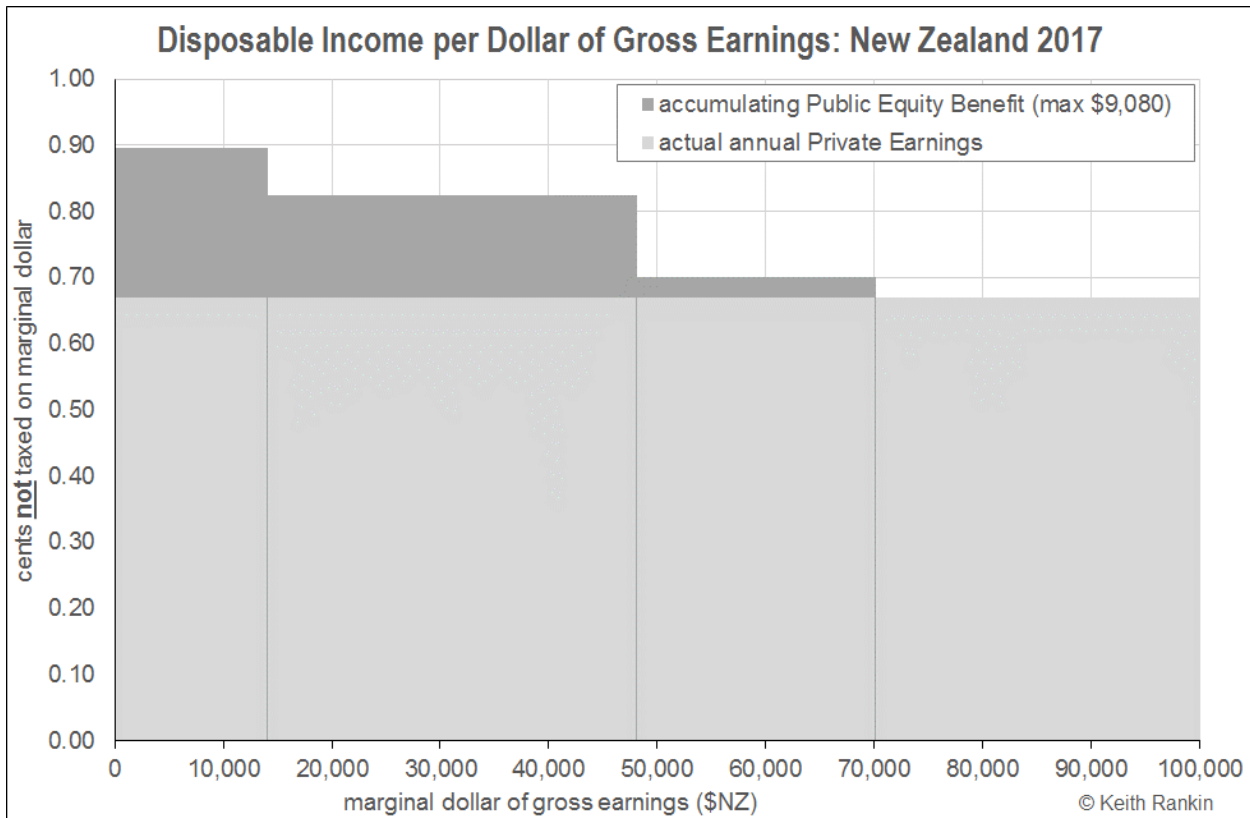
Below I present the five stages of public equity based reform, as it could apply to New Zealand. This 'basic income' is now called a 'public equity benefit', to avoid confusion with other uses of the term 'basic income', and to emphasise the three words 'public', 'equity', and 'benefit' that reflect the philosophy that underpins the new approach.

Tax-Benefit Reform Stage 1

Reconceptualisation of Income Tax: Public Equity Benefits

The central idea is that the top or second-top personal tax rate – in general, the marginal tax rate of the second-top income decile of taxpayers (the 33 percent rate in New Zealand; 37 percent rate in Australia; the 40% rate in the United Kingdom) – is reconceptualised as 'the' single (or 'flat') rate of income tax. Tax concessions that arise from lower graduations of the income tax scale are then conceived as Public Equity Benefits (PEBs), shown in Fig 1. In both tax scales shown in Table 1, the maximum annual PEB is \$9,080 (\$175 per week), represented by the whole of the darkly shaded area of Fig 1. For the actual 2017 scale a person grossing \$48,000 only receives the darkly shaded unconditional PEB to the left of the \$48,000 line (which amounts to \$8,420). For the alternative 2017 scale, higher PEBs (compared to the actual scale) are received by people on lower gross incomes. This is shown even more clearly in Fig 2.

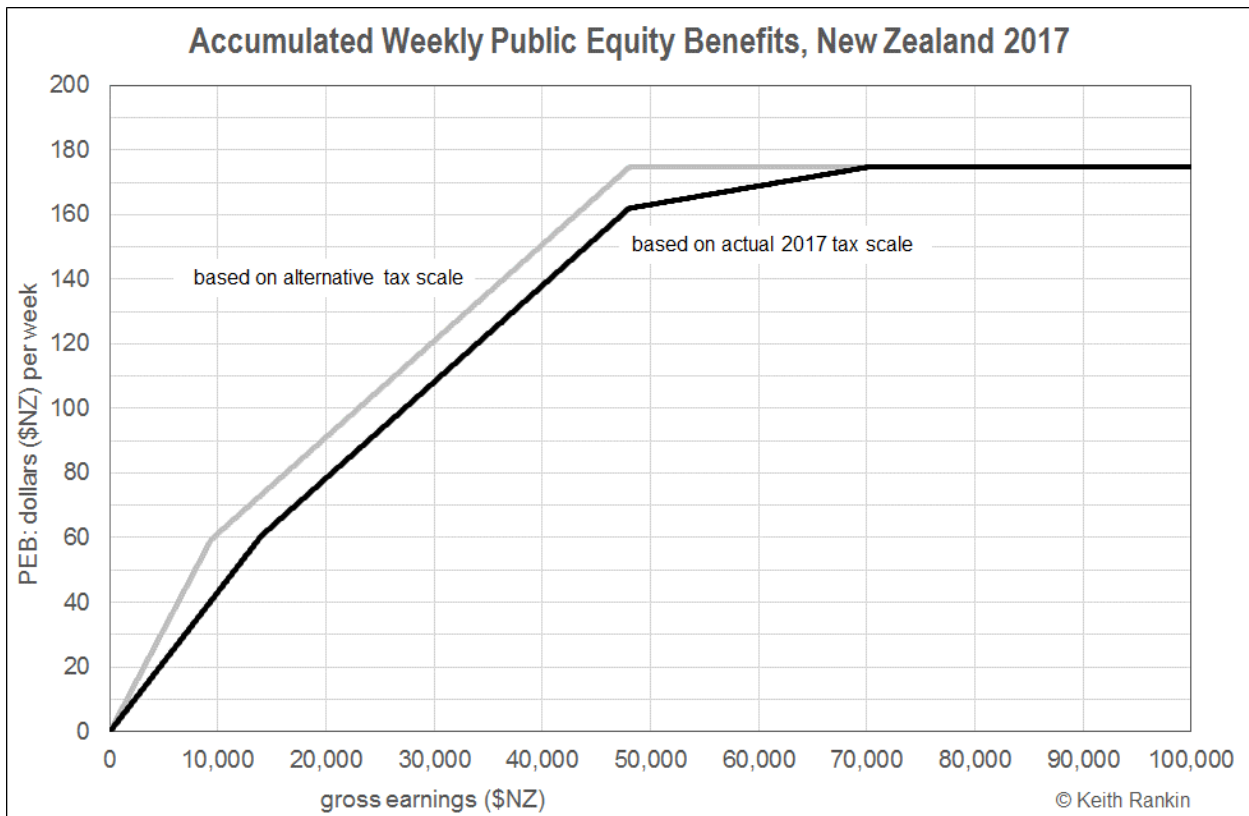
Fig 1



In New Zealand, this works out as equivalent to everyone grossing over \$70,000 per year having an assessed tax liability of 33 percent, and gaining an annual Public Equity Benefit (PEB) of

\$9,080. This amounts to a weekly PEB of \$175 receivable unconditionally by all tax-residents earning \$70,000 or more per week before tax. In Australia (using rates announced on 3 May 2016) the PEB works out (in \$A) at \$12,368 (\$238 per week) for persons grossing between \$87,000 and \$180,000 (a lower PEB for other incomes). And in the United Kingdom it is £10,800 (£208 per week) for persons grossing between £43,000 and £150,000 (a lower PEB for other incomes).

Fig 2



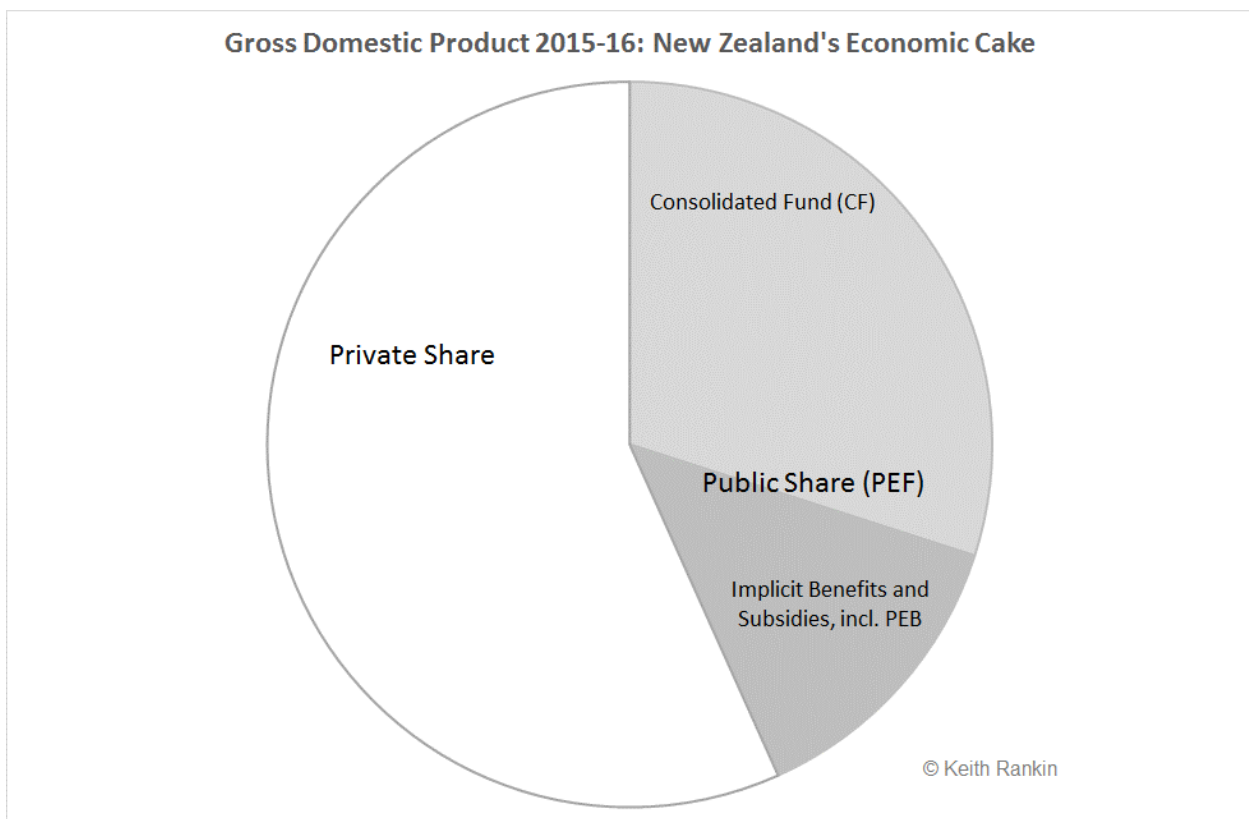
In [Universal Basic Income as a Reconceptualisation of Income Tax](#), I said "For people receiving income in the form of Family Tax Credits, Work and Income Benefits, or Student Allowances, upto \$175 of these weekly payments would be reconceived as Public Equity Benefits; any remainder (over and above \$175) would continue to be regarded as 'transfer payments', to use economist language." Now, I am inclined to think that we should apply the term 'public equity benefit' only to the benefit (as discussed here) that is revealed from the income tax graduations. (In a generic sense, we might also call these 'graduation benefits'.)

With the reconceptualisation, almost every resident adult receives some benefit income, defined as any form of publicly-sourced income entitlement. Many receive a mix of 'public equity' and 'other' benefits. 'Other Benefits' – the largest of which are New Zealand Superannuation, Jobseeker Support, Sole Parent Support, Supported Living Payments, Working-for-Families Tax

Credits, Student Allowances, and Accommodation Supplements – at present are paid by either the Work and Income unit of the Ministry of Social Development or Inland Revenue. For many people, total benefits received are in excess of – maybe well in excess of – the maximum PEB of \$175 per week.

This first stage of reform suggests the concept of a 'Public Equity Fund' (PEF). The Public Finance section (chapter 31) on the New Zealand Parliament website says: "Public finance could be seen in simplified terms as requiring all money received by or on behalf of the Crown (taxes, fees, rents, interest and so on) to be paid into a giant fund (formerly referred to as the Consolidated Fund) and all payments authorised to be made by the Crown (salaries, benefits, subsidies and so on) to be disbursed from this fund." There is no new name given for this fund, so Consolidated Fund (CF) it shall be, as shown in Fig 3.

Fig 3



The Public Equity Fund is a 'super-set' of the Consolidated Fund; we could think of the PEF as *gross public revenue*, with the CF representing *net public revenue*. Thus, it would be clear to all that PEBs are apportioned from the PEF. In aggregate, the PEF would be (in New Zealand) 33 percent of GDP, plus revenue from indirect taxes, plus profits accruing to government-owned (or part-owned) enterprises. All benefits, subsidies (including implicit subsidies, such as tax avoidance and discounted corporate tax), government purchases and debt-servicing are funded

from the PEF. Implicit benefits make up the difference between the PEF and the CF. The most important implicit benefits are the Public Equity Benefits revealed above, corporate tax discounts, and avoided tax. (Tax avoidance by trans-national corporations is not included here; such corporations use income transfers that distort GDP. This practice artificially reduces the GDP in countries like New Zealand, while artificially raising GDP in tax havens and in countries like Ireland which compete for global corporate business by discounting corporate tax rates.)

The PEF would be, in size, close to half of New Zealand's GDP (43.3 percent, based on 2015 data from the Budget Executive Summary; compared to a CF of 30.0 percent of GDP). In some other countries, it may be revealed to represent even more than half of GDP. (How that percentage might change is covered in Reform Stage 3.)

Stage 1 is purely an accounting reform; a 'relabelling' exercise. Stage 2 increases some people's benefits.

Tax-Benefit Reform Stage 2

Application of Horizontal Equity: Public Equity Dividends

Stage 2 of the proposed reform is to replace Public Equity Benefits (PEBs) with Public Equity Dividends (PEDs). This is a straightforward application of the principle of horizontal equity – treating equals equally.

This reform requires, firstly, that people who receive total benefits (Public Equity Benefits plus Other Benefits) of less than \$175 per week gain a benefit top-up. This benefit top-up will ensure that all adult tax-residents receive a minimum of \$175 per week of publicly-sourced (benefit) income; ie at least \$175 per week from the Public Equity Fund.

For persons whose only benefit is a PEB (or who receive no publicly-sourced income), in effect their PEB will be topped up to \$175. For other persons, their PEB will be topped up sufficiently to ensure that their total benefit is \$175.

Once everybody has a minimum benefit of \$175 per week, this amount becomes a Public Equity Dividend. The first \$175 of all persons' benefits become an unconditional publicly-sourced income of \$175 per week. Benefit income in excess of the PED remains subject to the same conditions as before.

Young adults who presently receive no PEB, but receive \$175 as a Student Allowance or as a Jobseekers' (Unemployment) Benefit, will cease to have their benefits paid by Work and Income.

Instead they will receive their PED benefit unconditionally from Inland Revenue, and pay 33 percent tax on any part-time earnings they might subsequently accrue. (The definition of 'adult' would continue to be the definition used for the purpose of Working-for-Families 'tax credits'.)

With a weekly PED of \$175, every adult tax resident becomes subject to the following formula:

- Disposable Income = 67% of Gross Earnings + \$175 + Other Benefit

While for most people Other Benefit will be zero, for some – such as low-middle-income families and low-middle-income people with high accommodation costs – 'other benefits' continue to be an important part of their disposable incomes.

Following Stage 2 Reform, 'other benefits' would be calculated and administered exactly as at present, with the exception of former beneficiaries (such as young unemployed people without dependents) for whom the PED now constitutes their only benefit.

Stage 3 Reform

Dynamic Principles for a Fiscal System based on Public Equity

Stage 3 requires principles to determine how both the PED (eg \$175pw) and the income tax rate (eg 33 percent) adjust over time. The most basic adjustment principle for the PED is indexation with inflation. Normally this will be insufficient, because the PED will be required to capture gains from productivity, especially where the sources of those productivity gains are essentially public (eg the application of public knowledge to productive processes). The PED could be understood as a productivity dividend, which adjusts sufficiently to ensure that productivity gains do not become reasons for inequality or exploitation.

One solution is that the PED automatically adjusts for prices, and is 'manually' adjusted periodically to reflect both productivity gains and labour requirements. If ever there are general labour shortages (as distinct from shortages of specific labour skills), or if productivity falls, then PEDs should be held rather than raised. In periods (such as recessions) with both higher productivity and general labour surpluses, then both a higher PED and a higher income tax rate would facilitate a return to macroeconomic equilibrium.

In a mature fiscal system based on public equity principles, fiscal parameters would be politically contestable. Presumably political parties of the left would look to raise income tax rates to fund increased collective goods while also ensuring persons on lower incomes do not experience decreases in their disposable incomes, meaning an increased Public Equity Fund.

Parties of the political right would tend to favour, at least for a growing economy, reductions in the percentage size of the Public Equity Fund.

Stage 4 Reform Taxation Before Distribution

Stage 4 sees the PAYE (pay as you earn) system of income tax collection reach its historical endpoint, with all income tax deducted at market-source, and all private incomes paid out of funds that have already been taxed.

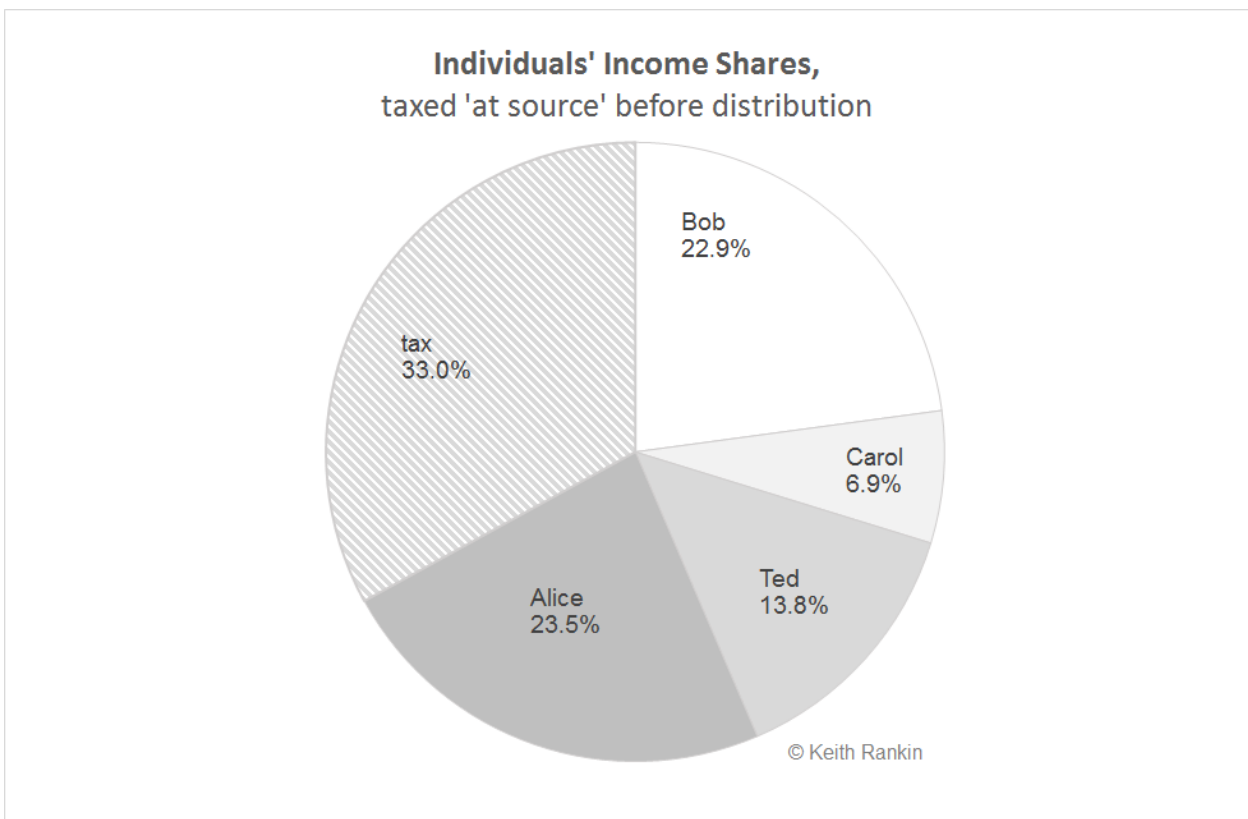
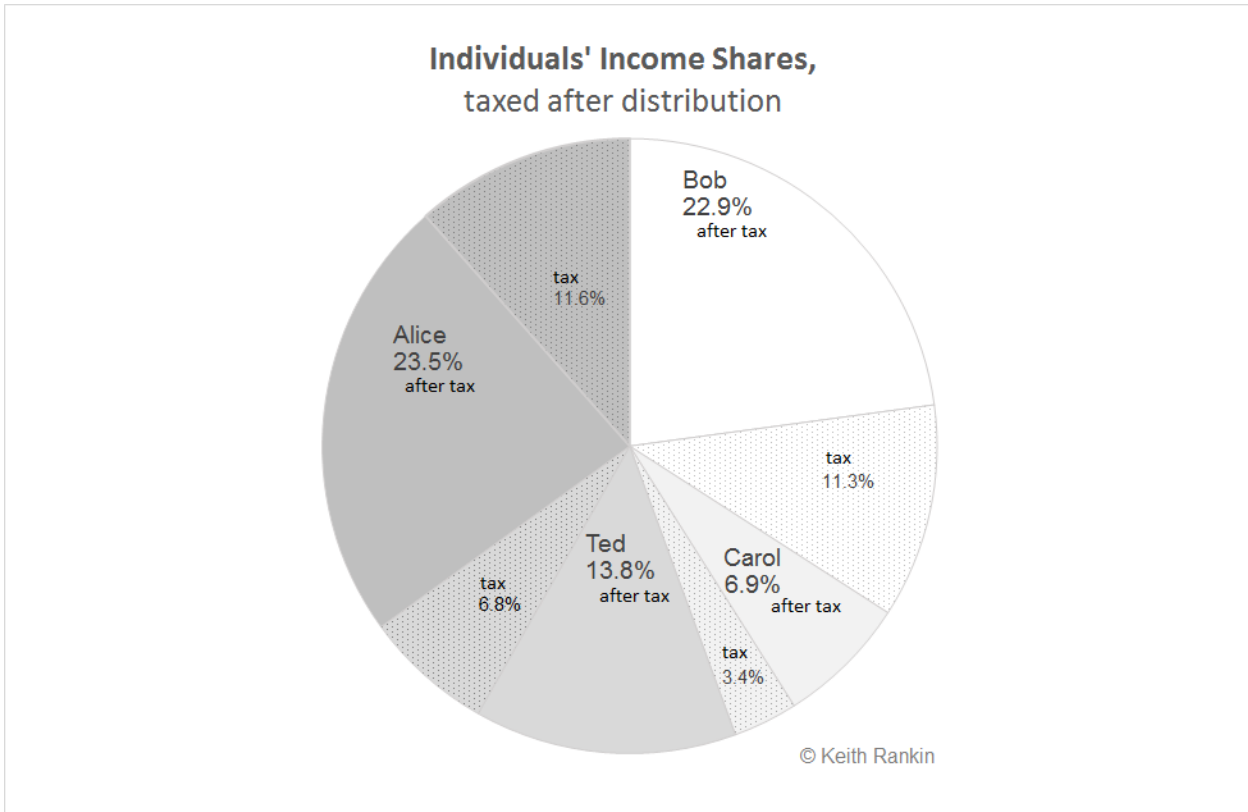
Our historical convention has been to distribute income 'as if' all was private income, and then for the government to take back arbitrary shares as public revenue. While this reflects the historical circumstances in which income tax was introduced, and the pragmatics of tax graduation, it lends credence to 'right-wing' view that income tax is tantamount to appropriation of private wealth. And it makes tax avoidance relatively easy. Following Stage 1 reform above, every person and every organisation is liable for the same proportion (ie 33 percent) of their gross income as tax.

Fig 4 (below) shows how personal income distribution to wage/salary earners would look after both Stage 1 reform and Stage 4 reform. In the former case, all employee income is distributed (eg to Bob, Carol, Ted and Alice) as if it was private income, and 33 percent from each is obligated to Inland Revenue. In the 'after' case, the 33 percent (less subsidies on company tax) is committed *prior* to being allocated to firms' employees' gross salaries. Thus Bob, Carol, Ted and Alice all understand their private wages/salaries as being net of tax. They no longer perceive themselves as facing a marginal tax rate on their incomes. Each understands that they will receive additionally a PED (ie \$175 per week) from public revenue. (In practice, if they are fulltime tenured employees, their PED would most likely be paid with their wages, to be deducted from the sum their employers remit to the Inland Revenue tax authority.)

Once all income is taxed at a single rate, income tax is easily understood as a production tax, in which all producers pay a proportionate levy for their use of economic inputs that belong in the public domain. Thus producers would contribute to the Public Equity Fund 33 percent (or whatever else the tax rate might be) of the values their activities add to the economy's output.

Once income is taxed in this manner ('at source'), marginal rates of income tax disappear. They would be revealed to be an artefact of an antiquated accounting system that incorrectly attributes public income to private parties.

Fig 4



We might note that Carol is better placed to negotiate a higher wage than she was pre-reform. If she refuses to accept her low wage, now she has \$175 per week, as of right, to tide her over.

Stage 5 Reform

Application of Vertical Equity: Social Assistance Benefits

One of the reasons that makes a Universal Basic Income attractive to many people is the possibility of abolishing the intrusive and expensive bureaucracy that comes with means-tested benefits.

The problem here – if we abolish all means-testing – is that we no longer have a way of providing social assistance to those with particular needs; needs arising for example from age, disability (of oneself or of one's dependents), parenthood (especially sole-parenthood), education requirements, housing deficits, or as casualties of indebtedness.

The principle of vertical equity – treating different people differently – is not antithetical to that of horizontal equity, as is sometimes supposed. Rather, there is a synergy between the two principles. Social assistance allows a fiscally affordable PED to be paid as a universal benefit. Whereas the Public Equity Dividend is the base structure of equitable tax-benefit integration, social assistance is that reform's necessary superstructure.

The challenge is to reform social assistance so that it can be applied on a more humane scale than at present while removing perverse incentives that disable people from finding their own solutions to the challenges that they may face.

The proposed reform here is to accrete the various forms of assistance provided from the Public Equity Fund, and to apply a single tapered income test to that assistance. New formulae would be required to displace (with sensitivity) existing fragmented entitlements; possibly based on a points system similar to that adopted by New Zealand's Immigration Department. This 'Social Assistance Benefit' (SAB) should be as available to self-employed people as to people who identify as employees.

Recipients of social assistance should only face one rate of benefit-abatement. With some people facing enforceable levies such as student loan repayments and child support, there can be no realistic capacity to reduce social assistance through the present system of separate abatements on family tax credits and accommodation supplements. While systems such as student loan repayments and child support payments may themselves require further reform; it is not the role of public equity reform to intrude into these specific and separate matters. (Certainly, Child Support payments should be paid always to the caring parent, and consideration for social assistance would take such payments into account.) Further, I note that the 'living allowance'

component of the student loan scheme would naturally become redundant with the advent of Public Equity Dividends.

The reforms advocated here are agnostic on the matters of additional universal benefits for children. The important issue is that mothers now receiving PEDs as of right are less in need of child benefits, let alone universal child benefits. Further, the number of dependent children a parent has would be an important part of the SAB points' formula. A benefit programme of PEDs and SABs seems workable, affordable and equitable to all kinds of families. The costly addition (and complication) of universal child benefits should not become an issue that impedes the core reforms. Further, a reformed 'child support' system, with minimal incentives for parents to spend income on legal professionals, and with all child support money serving its putative purpose (and not 'benefit recovery' purposes as at present), may be a useful complement to the core reforms.

With respect to age benefits, some may argue that a PED is a sufficient universal benefit for the elderly, and that anything else should come under the rubric of social assistance. My sense is that, at least in New Zealand's post-1938 tradition of universal superannuation, all persons over 65 should continue to receive a universal superannuation benefit over and above the PED. The present 'married' payment of New Zealand Superannuation net of 33% tax is \$296 per week.

My suggestion would be to pay a 'universal superannuation' at \$122.50 (70% of the PED) to persons aged over 65 (or whatever qualifying age may be preferred in the future), in addition to the PED. Universal Superannuation acknowledges that age does come with higher need for some services (especially healthcare services, as private health insurance becomes unaffordable). And it recognises past contributions to present productivity, be it through labour, caregiving, or the many other unaccounted-for contributions (including having participated in the 'reserve army of labour') that we make. For persons over 65 living without a partner, who presently gain a premium on their superannuation entitlement, that premium might be better regarded as social assistance.

Productivity, Labour Supply and Sustainability

Reforms such as those listed above are essential if liberal capitalist societies are to meet the distributional challenges of rising economic productivity. Such societies require adequate – indeed more than adequate – spending capacity on the part of the ordinary (especially middle-decile) people who constitute the markets for the 'wage goods' whose production is the hallmark of liberal capitalism. If the system cannot distribute income to those for whom these goods and services are designated, then the whole capitalist edifice eventually fails; such failure

is delayed only by a spiralling indebtedness that compensates to some extent – and only temporarily – for failures of income distribution.

In the process of meeting the distributional challenges that can sustain liberal capitalism, ordinary people are able to make labour supply choices – work-leisure trade-offs – that cannot be made when systemically-inadequate wages and consumer debt are their only sources of purchasing power. Maintaining a more elastic labour supply – with people working shorter hours in normal times – is the key to the sustainability of the natural environment as well as the sustainability of capitalism itself.

Income security in high productivity societies is neither unaffordable nor a luxury. Rather, income security extends the core liberal capitalist concept of 'consumer sovereignty' to sovereignty over household time as well as over consumer choices. A mature liberal capitalist society that acknowledges and values public equity has a mechanism to recycle income to all its equity-holder households in such a way that they can make genuine choices about spending and sustainable living. Their governments can easily adjust the core fiscal parameters (especially the income tax rate and the size of the 'public equity dividend') to ensure that nobody is left behind, and that nobody is forced to enter into exploitative labour contracts or self-employment in the informal economy.

Public equity is our best means to keep in circulation the money that represents our disposable incomes, and that atrophies when concentrated in private hoards. Public equity represents capitalism's happy liberal future. Capitalism begets other illiberal futures if we do not have the imagination, or if we are too cynical, to acknowledge and enforce our public property rights.
