Constructing a Social Wage and a Social Dividend from New Zealand's tax-benefit system.

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INTRODUCTION

A tax-benefit regime that provides publicly sourced income to all adults - whether as pensions, cash benefits, tax allowances or a combination - can be called a ***basic income system***; the guaranteed income can be called a ***social dividend***,[1] a monetary return on collectively inherited resources. A social dividend can be more, less or equal to an adequate benefit. A full ***universal basic income*** (UBI) is an adequate social dividend, equivalent to at least an unemployment benefit, whereas a ***partial basic income*** is a social dividend that must be supplemented by an income support 'transfer' in order to adequately sustain an adult lacking a private income.[2]

The realisation of a social dividend, *per se*, is not a costly reform. Choosing between costed income support proposals is a matter of politics - of public values - not economics. For any tax rate and level of committed public expenditure, a social dividend can be calculated.[3] Likewise, for any level of benefit to be distributed as a social dividend, there is a calculable cost in taxes and/or public expenditure and/or employment. This paper details two alternative budgets for New Zealand in 1996/97, based on flat income tax rates of 33% and 43%, each of which yields social dividends as partial or full basic incomes.

A ***social wage accounting*** framework is needed through which different tax-benefit proposals - including proposals that do not provide unconditional benefits - can be easily compared and contrasted, and which can be understood with reference to other items of public expenditure. By applying such a framework to current New Zealand tax scales, an effective tax credit of $3,933 *per annum* can be discerned as a social dividend. An effective low income surtax, a clawback on some individuals' social dividends, is also revealed.

The existing tax-benefit regime can develop, given time and productivity growth,[4] into a generous basic income system. Juliet Schor's idea (Schor 1991) of a historically rising ***productivity dividend*** is suggestive of the means by which a full UBI should be able to emerge from a simple social dividend arrangement. Future productivity growth will be unsustainable, however, if high and growing levels of labour supply continue, as both a rational response to and a cause of increased relative poverty.

Basic income reforms suggested by social wage accounting principles - a necessary though insufficient step towards the achievement of economic justice and sustainable growth - can become to public economic welfare what the recent introduction of Mixed Member Proportional (MMP) elections

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1 James Meade (1993) uses the term "social dividend" in preference to "basic income" the more common term in Britain and Europe.

2 A transfer payment is, in effect, a gift; it is unearned income, conceptually different from a social dividend. Transfers and social dividends are both examples of benefits.

3 Saunders (1988), p.26: "As they are normally proposed, GMI [guaranteed minimum income] schemes are self-financing".

4 More goods and services per hour of environmentally sustainable work. Where environments are degraded, we must add an imputed additional labour input into our productivity measure; likewise work gifted to the public domain should be excluded from our productivity measure. Productivity growth is not the same as economic growth, but sustainable economic growth is a form of productivity growth.

is becoming for representative democracy in New Zealand.[5] Such reforms will naturally incur resistance, as all progressive reforms do, but, as Hirschman (1994) has shown, conservative interests generally adapt well to reforms, often embracing them once their fears have been mollified.

BASIC INCOME / FLAT TAX

A common subset of social dividend proposals come under the rubric of 'Basic Income / Flat Tax' through which the progressivity of personal taxes derives from the interaction between the unconditional basic income and the flat tax, rather than from graduations in the tax scale. Tony Atkinson (1995) calls the proposal 'BI/FT', distinguishing it from the welfare states created mid-century which he labels 'social insurance / graduated tax' (SI/GT). In the context of New Zealand, where the concept of social insurance is not common parlance, the prevailing approach to benefits and taxes can be called 'CI/GT' (conditional income / graduated tax).

Atkinson fails to address the important issue of the difference between social dividends ('earned income') and transfer payments ('unearned benefits'); that is, the difference between distribution and redistribution. He simply sees basic income payments as "refundable tax credits", a term which fudges the distinction. Atkinson sees the simplicity of converting the British tax system into one based on a flat tax set at the present upper rate of 40% combined with a standard tax credit. Likewise, the present New Zealand tax-benefit system can easily convert into a BI/FT system funded by a 33% flat rate of income tax and a 12½% GST.[6]

SOCIAL WAGE ACCOUNTING

Social wage accounting takes the BI/FT system one step further, into a system based around a social wage of which the social dividend becomes just one essential part. Thus, the ***standard tax credit*** (STC) is a name for a social dividend constructed from existing tax allowances. The STC is an integral part of a ***social wage*** which is a ***factor income*** like wages, salaries, interest and company dividends. The STC is an earned income, a share of an equal return on social assets; public domain assets that cannot be freeholded and publicly owned assets that have not been privatised. The social wage fund, by definition, is the equal property of all citizens,[7] including children.[8] Thus the individual social wage is simply an equal share of the total fund.

The Social Wage Fund as a portion of GDP

Gross Domestic Product (GDP) is the total income derived from the sale of goods and services produced from domestic resources. GDP is the tax base; the fund from which a social wage must be drawn. While GDP is an important concept for the analysis of income distribution, it is at best a crude measure of living standards. Much unpaid work contributes to the GDP total, but is not acknowledged as such. For example, while family 'breadwinners' are made more productive through the assistance of other family members, only the breadwinner is acknowledged by the Statistics and Inland Revenue Departments as an income earner.[9]

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5 Albert Hirschman (1991) examines the evolution of and resistance to progressive reforms in civil rights, political democracy and social welfare - in accordance with T.H. Marshall's schematics.

6 Goods and Services Tax / Value Added Tax

7 I favour a generous definition of citizenship, for social wage accounting purposes. (Note that a number of Middle-Eastern nations do have what amounts to a high social wage, but based on a narrow definition of citizenship.) I would include all permanent residents of all ages, plus all people who qualify for a 'primary' tax code; eg foreigners on work permits who have applied for permanent residence, and who are not paying primary tax overseas.

8 In my formulation, children are credited with a full social wage but no social dividend. A neo-liberal formulation would, I imagine, pay a children's social dividend as "vouchers" which could be spend by parents on a limited range of child-specific items.

9 On 7 August 1996 (Radio New Zealand, 8 August; ref. Rooney), a New Zealand court awarded the unpaid ex-wife of a very high income earner a share of his future earnings, on the basis of her contributions to the total earning capacity of

Economic historians have repeatedly demonstrated that the dominant contributing inputs to modern economic growth are social; eg technology, scientific knowledge, culture, social overheads, public institutions, public policy. Along with the natural environment, these are the resources of the public domain.[10] While income taxation can be justified on a number of grounds, the most important in my view is that it is a royalty payment to the owners of the public domain.[11] To maintain the public domain it is necessary to plough back part of this royalty - this rent; it is necessary to invest part of the social wage.

It is our propensity as social and creative beings, to make voluntary contributions to the public domain; to our common resource base. We are better able to make our own contributions to the health of the public domain if we each receive a cash income - a social dividend - as a part of the social wage. Such income can act as an increment to our earnings or a means of procuring time. We enrich the public domain, for example, by conducting public discourse on this subject. UBI activists do not expect to make a profit from the promotion of the basic income concept.

A tax justified as an economic rent for the use of public domain resources should be a flat rate tax. Otherwise some users would be paying a different price for the same resource.[12] A pragmatic graduated tax scale can too easily be seen as an arbitrary confiscation of private wealth. A flat tax on all producers' contributions to GDP yields a simple slice of gross market income. This slice forms the major part of the social wage fund. The other parts come from indirect taxes and the profits of New Zealand's dwindling inventory of publicly owned enterprises.[13]

GST can be accounted for as a levy paid by consumers for their use of public domain resources. Already a flat rate, it fits seamlessly into a social wage accounting framework. Some basic income proponents prefer a high rate of GST to a high rate of income tax, or at least emphasise that the two are substitutable.[14] I prefer a high rate of income tax, because foreign owned enterprises use New Zealand's public domain resources to make profits for their shareholders. Those shareholders should pay an adequate rent for their use of New Zealand's resources.

The Social Wage is Analogous to Company Profits

While I use the term social wage, with which most New Zealanders have an intuitive understanding,[15] an alternative name would be 'social profit'.[16] It represents collective property income; as such it has nothing at all to do with the labour market. Profits can be retained by the directors of a company for future investment, added to reserve funds which buffer the company from the frequent upturns and downturns of the market economy or added to a sinking fund used to repay long-term liabilities. The government's role, likewise, is to manage the public domain on behalf of the public's

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their household. The same reasoning applies at a social level; that in itself suggests that unpaid citizens should receive a social wage at least as high as that received by paid citizens.

10 The diagram in Parker (1990), "Understanding Productivity, the Ways of Economics and History" (p.9), *JEBO* and p.18 *AEHR* gives some of the flavour of this public domain approach.

11 In an absolute monarchy, the sovereign monarch owns the public or sovereign domain and hence owns the social wage (crown wage?) which the monarch may dispense as s/he sees fit. (See Weldon [1988, p.41] for such a use of the term "social wage".) In a constitutional democracy, all citizens are equally sovereign. While citizens own New Zealand's newly created "Crown Enterprises" I find the symbolism of the use of the word "crown", with its historical links to an autocratic monarchy, to be an ominous hint of the distrust of democracy implicit in the ideology of New Zealand's post-1984 economic reforms.

12 Other taxes, such as carbon taxes, can be used to discourage the abuse of particular public domain resources.

13 At the local level, the electricity retailer, Mercury Energy, pays social dividends (albeit inadequate) to all Auckland households. Much of the social wage attributable to the public assets contained in Mercury Energy are absorbed in executive salaries, to the detriment of the shareholders. Mercury Energy at least conforms to social wage accounting principles, in that its shares are not transferable.

14 For example, Alison Marshall, Department of Geography, University of Auckland.

15 The term social wage is important because of its widespread popular usage. Interestingly, it is not a term that appears very much in the academic literature; Australia to some extent is an exception (Rankin, 1996c).

16 Indeed I am quite happy to be labelled a 'social capitalist', in that my analysis emphasises public domain resources as social capital, and sees the product attributable to social capital as the means to social justice.

interest. Democratic governments, like boards of directors, therefore have the prerogative to decide how much of the social wage to distribute as cash income as well as what price - ie tax rate - to ask for public domain resources.[17] Public domain resources are valued through the political process (Rankin 1996c).

The social dividend is the distributed part of the social wage, fully analogous to company dividends. Each person's social dividend is simply a fraction of a social wage which in turn is a fraction of GDP. The remainder of the social wage - the retained or undistributed social wage - is used to fund supplementary benefits, public services, public administration, public debt service, and public debt repayment.

New Zealand's present tax-benefit regime as a Basic Income System

New Zealand already has a social dividend of sorts, a standard tax credit (STC).[18] Like that other quasi-universal payment, New Zealand Superannuation, it is subject to an effective tax surcharge ('clawback' or 'surtax'). Hence the STC is not apparent to most New Zealanders.[19] From July 1, all New Zealand taxpayers earning over $34,200 receive a tax allowance of $3,933. The first $34,200 is taxed at a concessionary rate of 21½%; ie a rate below the company tax rate of 33%. That means that the first $34,200 of income secures a tax credit of 11½ cents per dollar - $3,933 in total. For middle-high income earners, a simple BI/FT system holds in New Zealand:

Net Income = Gross Income less 33% [FT] plus $3,933 [BI]

The tax cuts, which came into effect in July 1996, give all persons grossing over $34,200 an increased social dividend of $22 per week.[20] Those whose salaries do not reach $34,200 gross are denied a full tax credit; thus we can think of the shortfall as a ***low income surtax*** (LIS).[21] It is because of the LIS that low income earners receive a much smaller tax cut; a heavily clawed back social dividend. Persons grossing less than $9,500 per annum will have their entire tax cut clawed back.

TABLE 1a : "CI/GT" Graduated Tax — New Zealand's Income Tax Parameters

	1995	1996	1997
maximum tax rate	33%	33%	33%
concessionary rate	24%	21½%	19½%
upper threshold	$30,875	$34,200	$38,000
effective middle rate	28%	24%	21%
lower threshold	$9,500	$9,500	$9,500
lower tax rate	15%	15%	15%

1b : Social Wage Accounting perspective on New Zealand's Income Tax Parameters

	1995	1996	1997
company tax rate	33%	33%	33%
Standard Tax Credit	$2,779	$3,933	$5,130
LIS upper threshold	$30,875	$34,200	$38,000
Low Income Surtax rate	5%	9%	12%
LIS lower threshold	$9,500	$9,500	$9,500
Low Income Surtax rate	18%	18%	18%

Table 1 shows the present, immediate past, and future tax scales from (a) the orthodox graduated tax perspective and (b) from a social wage accounting perspective. In (b), as earnings get higher, the LIS

17 There are checks and balances which prevent a government from asking too high a tax rate. One is international competition. Another results from a recognition that the public interest and the national interest are not the same; the national interest includes the interest of labour and private capital. One constitutional solution would be to institute an Upper House - really a regular forum of interests, including a special place for the *tangata whenua* in accordance with the Treaty of Waitangi - through which, among other things, private interests could contest tax rates they considered to be excessive. See Rankin (1995a).

18 For further treatment of this topic, see Rankin (1995c) and Rankin (1996a).

19 That is, New Zealanders who are not using or thinking of using family trusts as a way of tax-splitting. Tax-splitting is a way of contriving a family's financial affairs so as to ensure that each member gets their STC. See Smith (1996), Rankin (1996a).

20 The term 'social dividend' to represent increased tax concessions is now common usage in New Zealand. See, for example, Clifton (1995) "the long-awaited social dividend", Berryman (1995) "a social dividend of sorts", Rankin (1995b).

21 Strictly speaking it should be called an '*effective* low income surtax', analogous to the 'effective marginal tax rate' (EMTR) that defines the poverty trap and the 'additional work - additional leisure' trade-off.

gets lower. Persons earning $33,200 now pay a low income surtax of $90 per annum; 9% of the $1,000 shortfall below the $34,200 threshold. (9% represents the difference between the 33% and 24% tax rates.) They receive a surtaxed social dividend of $3,843.

Social wage accounting shows that the first $3,933 of the incomes of beneficiaries and pensioners is in fact a social dividend, the STC.[22] Thus the present STC is paid without any clawback to beneficiaries as well as above-average earners.

Supplementary benefits paid to low-middle-income working families - eg Family Support, Guaranteed Minimum Family Income, the Independent Family Tax Credit, the Accommodation Supplement - act as a crude somewhat "Kafkaesque" offset to the LIS paid by caregivers and lower-income workers.[23] Many people out of the labour force - mainly caregivers of children, and students who do not qualify for an allowance on account of their parents' income or their having been in receipt of a student allowance for more than five years - get neither a social dividend nor a supplementary benefit; in effect, they pay an LIS equal to the STC.[24] While the STC is distributed social wage earnings, the LIS is confiscation of those earnings, to a large extent a marriage tax.

New Zealand's Social Wage

All public expenditure is *social wage funded*. Thus public education, for example, is neither free nor tax-funded. It is part of the social wage; it is social wage funded. It is funded by every man, woman and child in New Zealand.

Social welfare expenditure has become very complex in New Zealand.[25] The retained social wage, plus the LIS and other surtaxes[26], is used to fund supplementary benefits. This social contract to redistribute part of the social wage is the commitment by all to support those whose earnings and imputed intra-family transfers[27] together fall below some socially determined minimum.[28] It also represents a commitment to pay abating benefits to low-income recipients whose incomes may not be below the social minimum (eg part-time workers), so as to facilitate the social integration of beneficiaries and employed workers. This social contract between paid workers and beneficiaries breaks down, however, when abatement rates add up to create enormous disincentives for some people to act to reduce their dependency. Benefit costs become unnecessarily high, while the victims come to be seen as undeserving 'bludgers'. Public sentiment becomes selfish, exacerbating the pressures that create dependency.

Removing the LIS would dramatically reduce the need for supplementary assistance - especially the accommodation supplements which tend to go into landlords' pockets,[29] and would provide the opportunity to rationalise the abatement regimes. The best means to rationalise transfers under social wage accounting principles might be to have a single supplementary benefit, which would be assessed

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22 A couple on the married rate of benefit receive half each. Thus, in the case of an unemployment benefit, *each* receives, at present, a weekly STC of $76 plus a top-up of $43, plus further top-ups in Accommodation Supplements, and Family Support.

23 Lipietz (1992, p.93) uses the term "Kafkaesque" to describe existing welfare webs.

24 It is a moot point whether the student loan living allowance might be regarded as a benefit, and as another means of delivering the STC under the present system. Student loan living allowances are classified as income by the New Zealand Income Support Service with respect for entitlement to a Community Services Card.

25 See "The Welfare Mess" (St. John, 1994) for a discussion of the ways different forms of assistance and abatement interact.

26 NZ Superannuation tax surcharge, Child Support liable parent contributions, and Student Loan Repayments. It is valid to follow DSW's (Department of Social Welfare) example, and treat student loans as social dividends and "repayments" as high income surtaxes.

27 The most important transfers are those from a breadwinner parent to a caregiver parent, and from parents to children (including adult children up to age 25 who are full-time tertiary students).

28 That minimum varies for different members of the community. While it is certainly higher for an elderly retired person or a disabled person than an able-bodied person, it might also vary according to where a person lives.

29 Including public sector landlords who have sought to exploit their effective monopoly position by setting "market prices" for low income rental accommodation (as the Minister of Housing, Murray McCully, publicly admitted in June).

by a points system. There would be only one abatement regime, and all surtaxes could be abolished.[30] Points would be 'awarded' for circumstances such as senior age, disability, number of children. Where social dividends fall short of unemployment benefits, everybody would receive enough points to ensure entitlement to an adequate basic income on becoming unemployed. Because the benefit would be abated in accordance with private income, a lack of income would not be a criterion for awarding points.

With all public expenditure being social wage funded, all 3½ million New Zealanders equally fund, for example the bureaucracies that test means, 'count beans', and push up interest rates to dampen down an economic recovery that might otherwise lead to wage claims in excess of the inflation rate. From a social wage accounting perspective, all of us have an equal financial stake in publicly owned institutions, so we all have an equal right to determine how they are run, to have free access to information about how our social wages are being spent, and to be able to judge whether social wage expenditure (including subsidies to companies) conforms to some principle of economic justice.

An important but often neglected part of the social wage is foreign aid. Much of the public domain is global, not national, although nations with well-educated populations get much more value from global resources such as the Internet than do 'Third World' populations. A commitment by all nations to paying a proportion of the social wage to multilateral institutions that can provide international public goods' and environmental investment should be seen as integral to any version of social wage accounting.

Fiscal Transparency

One advantage of social wage accounting is that a flat base rate tax of income tax equal to the company tax rate gives a reference point through which we can see hidden subsidies and surtaxes. Thus we can say that any contribution to GDP that is not taxed at the company rate (ie 33% at present) constitutes either a tax credit or a business subsidy. Social wage accounting reveals 'corporate welfare'.

One area of considerable interest is owner occupied housing. All property rentals - including imputed rentals for owner occupiers - are rightly a part of GDP. Income paid to landlords and mortgagees is taxed (and subject to local government rates). The subsidy only comes to the income derived from the owner-occupiers' equity. In practice this is a straight out subsidy to freehold property owners. While I do not favour imposing additional burdens on superannuitants who own their own homes, [31] this subsidy should be recognised for what it is, an income transfer to the richest members of society. Removing this subsidy can be one means to funding a higher social dividend.

Social wage accounting principles do not suggest that work produced and consumed within the household economy should be included in GDP. Therefore, such domestic production should not be subject to income tax - nor should voluntary work performed outside the home. Unpaid work is exclusive to either the private domain or the gift economy. All production - paid or unpaid - should be recognised, however, as contributing to a nation's average standard of living. Recognition can come through attempts to impute a total value to such domestic production, and then including such a value in a measure of living standards.[32] At a more immediate practical level, recognition should also come through the removal of the low income surtax that claws back the social dividends of many women. Recognition would come by paying all adults their social dividend, not by assessing the productive contribution of each unpaid worker and making rewards conditional on individual contributions.

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30 This paper is not the place to discuss Child Support surtaxes. But it should be noted that child maintenance relates to private contractual problems that have occurred between parents. Society, as the beneficiary of children, has a separate contractual obligation to assist families. Child maintenance should not be used for benefit recovery purposes. Refer Rankin (1996d).

31 I would like to see all of GDP taxed, and elderly people of modest means compensated through a rise in their supplementary benefit (ie pension) entitlement.

32 Work undertaken by Duncan Ironmonger (1989) is moving towards the construction of national accounts made up of a gross market product, a gross household product, and a combined gross economic product.

Current Patterns of Redistribution

Social wage accounting reveals a society in which publicly-sanctioned redistributive transfers flow, on balance, from women, from families and from the poor. They flow to big companies, to higher salary recipients, to home owners, to beneficiaries. This is in addition to the publicly promoted transfers from lower-income recipients brought about through gambling,[33] through above-market interest rates, through the Employment Contracts Act, through the role of Housing New Zealand in establishing an exploitative market in low-income housing, and through a formula for indexing benefits that continually diminishes each beneficiary's share of national income.

Tax-benefit reforms based on social wage accounting principles - namely the introduction of an explicit social dividend - firstly seek to redress these imbalances. In addition, they make an adequate universal basic income into a politically feasible objective. A move towards a UBI would return income to women, families and those in part-time, low wage and casual employment. Social wage accounting ensures this is done without discrimination. Simply targeting women places male caregivers and low wage male workers at a disadvantage while creating subsidies for the many affluent women in modern New Zealand. Targeting families leaves some individuals - eg single low income liable parents - in a hopeless position. Targeting the poor with a maze of conditional benefits keeps the very poor less poor but still poor, while reinforcing their dependence.

The End of "Gross Earnings"?

One advantage of a flat rate of income tax is that it removes any reason for distinguishing between gross earnings and net earnings. Why should means-tested benefits and surtaxes be assessed against gross earnings, a large part of which have already been placed into the social wage fund through PAYE? By accounting for all income tax as company tax, all our personal incomes can be received net of tax. Companies, universities etc. would pay company tax to the effect of 33% (or whatever) of their contribution to GDP, and pay salaries net of income tax, adding the standard tax credit as a separate item on the pay slip (see fig. 2 as an example payslip for a person *grossing* $50,000 in today's language). Employers would continue to be the main delivery agents of tax credits, reflecting the direction we have been moving in since the introduction of PAYE and withholding taxes. The only barrier to completing that reform is the existence of multiple rates of personal income tax. A tidy, easily understood, social accounting system makes it much easier for citizens to debate issues of public policy.

FIG. 2

Tax Code	Primary
Annual Salary	$33,500.00
Fortnightly Earnings	$ 1,288.46
Standard Tax Credit (STC)	$ 151.27
Net Income for Fortnight	$ 1,439.73

The poverty trap, while real, is in some respects a statistical artefact. In particular, the alleged disincentives of standard income tax rates do not stack up. If incomes were paid on a net rather than a gross basis - as today's taxable benefits are - then genuine increments to private incomes would be retained. The exception would be persons in receipt of a supplementary benefit. Social wage accounting reforms will correct the artefact while significantly easing the abatement problem.[34]

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33 Witness the expansion of Lotto-type games, casinos and sports betting.

34 Someone grossing $36,000 today is really earning c.$24,000 plus a social dividend of c.$4,000. Likewise, someone grossing $18,000 is really earning c.$12,000 plus a social dividend of c.$4,000. The lower paid person will also be paying a LIS and might also be receiving a supplementary benefit, abating at say 18% of actual private income. The true effective marginal tax rate (EMTR) would be 18%. Under existing social accounting conventions, we would say the EMTR was 36% [24% marginal tax plus 18% times (12,000 ÷ 18,000)]. See Rankin (1996a) for a discussion of true EMTRs.

WHAT CAN NEW ZEALAND AFFORD THIS FINANCIAL YEAR?

The Appendix Table presents two costed examples of universal basic income. They apply to income tax rates of 33% and 43% respectively. Estimates of public expenditure and revenue are taken from the May 23 Budget documentation. The proposals are conservatively funded, in that subsidies and the budget surplus have been treated as committed expenses, and the effects of contractionary Reserve Bank policies have been factored into the Budget estimates. Neither proposal relies on the removal of hidden subsidies to fund the social dividend.

I conclude that, at the present 33% tax rate, New Zealand could fund a UBI of over $6,000, so long as all transfers were abolished and no additional funding was made available to traditional social wage expenditure areas. On the other hand a lesser social dividend of $4,000 - about the same as the present standard tax credit - can be funded with adequate supplementary assistance. Thus, the “centre-right” STC proposal in the Appendix Table is essentially an accounting change, with some redistribution of supplementary assistance. Some low-middle income families would lose some transfer income while gaining a greater incentive to raise their private incomes. By rejigging the 1997/98 tax cuts already accounted for,[35] no-one need be worse off next year than they are today.

I believe that such a policy would be ideal for a party seeking to become the minority partner in a centre-right coalition. Such a policy, while costing nothing, would give people a positive reason to vote for the smaller party. If enough people vote for, say, the United Party, then it is likely to become part of a governing coalition. As part of the Government, it would expect to implement some of its policies. National, although “fiscally responsible”,[36] is essentially pragmatic. National implemented electoral reform; they could just as easily implement the 33% basic income / flat tax proposal.

The “centre-left” proposal in the Appendix Table is based on a 43% tax rate. At this rate, it would be possible to fund a full UBI of $9,000. Once again, I prefer a lesser amount of $7,000 as a standard tax credit, with the remaining $2,000 per adult being retained to fund supplementary benefits and new social policy initiatives. I see the 43% option as a politically realistic programme for a centre-left party, more easily sold to the public if the centre-right version were to be implemented first.

In both proposals, the funds required for transfers and new initiatives are only available by retaining children’s social dividends. This is not a problem for children - they are already better off under either STC proposal - in that their caregivers will have a social dividend as of right, plus, in many cases, an entitlement to supplementary benefit determined by the number of children in the family. However, I see that it is important that the retained children’s social dividends - eg $4,008m in proposal (a) - should be acknowledged in the public accounts, set against existing expenditure in education and children’s health. Thus, such existing programmes would be seen to be child-funded. Allocating this money to existing children’s expenditure frees up an equal amount for other social wage expenditure, some or all of which might come under the rubric ‘investing in children’.

CONCLUSION

In conclusion, I argue that New Zealand (and other nations with graduated income tax scales or income tax exemptions) already has a ***standard tax credit system***, albeit complex, crude and unjust in its present form. New Zealand, given the simplicity of its basic tax scale if not its welfare entitlements, is better placed than most nations to convert to an unconditional partial basic income, essentially through the removal of the effective low income surtax and the recognition of social wage accounting principles. A combination of increased transparency to the public and rising productivity dividends can make the parameters of such a basic income system politically contestable, leading to a culture of public welfare; a culture which embraces collective income and social contracts as key parts of the capitalist economy rather than as charity paid out to “losers” and “victims”.

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35 An approach which I have advocated elsewhere (Rankin, 1996a), is to simply adopt social wage accounting principles now, and then to replace the July 1997 tax cuts with a $10 per week increase in the standard tax credit. By 1997/98, GDP will be close to $100,000 million, giving the government an extra funding source.

36 The 1994 Fiscal Responsibility Act requires government to give top expenditure priority to debt repayment.

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Appendix Table

SOCIAL WAGE ACCOUNTING / UNIVERSAL BASIC INCOME; Costings for 1996/97

© **Keith Rankin,**
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GDP at Market Prices	$95,000m	($26,389 per capita)
GDP at Factor cost	$83,671m	
Total Population	3,600,000	
Adult Population (over 17)	2,700,000	

(a) = "Centre Right" version of BI / FT
(b) = "Centre Left" version of BI / FT

	(a)	$m	(b)	$m	Notes
Base Rate of Income Tax	33%		43%		Company Tax Rate; a proxy for the public domain contribution to GDP.
Gross Income Tax at Base Rate		27,611m		35,979m	Percentage slice of "GDP at Factor Cost" subject to income tax.
Budgeted Income Tax		21,212m		21,212m	1996 Budget. Net of personal tax allowances & hidden subsidies.
Indirect Taxes		11,508m		11,508m	Mainly GST
Other Revenue		2,635m		2,635m	Investments, including profits of State Owned Enterprises
Budgeted Revenue		35,355m		35,355m	Budgeted Income Tax, plus Indirect Tax & Other Revenue
Aggregate Social Wage		41,754m		50,122m	Gross Income Tax at Base Rate, plus Indirect Tax & Other Revenue
Budgeted Expenses		32,874m		32,874m	Budgeted Government Expenditure, excl. debt repayment.
Transfers		11,730m		11,730m	Benefits, Family Support, Student Allowances, Foreign Aid
Budgeted Subsidies		179m		179m	Transfers to companies etc.
Hidden Subsidies		2,000m		3,000m	Estimate of subsidies revealed by social wage accounting.
Other Govt. Expenses		20,965m		20,965m	Budgeted Expenses less Transfers and overt Subsidies
Surplus		2,481m		2,481m	Budgeted Revenue less Budgeted Surplus
deduct agency savings		475m		803m	Reduced benefit administration costs to NZ Income Support Service etc.
Committed Expenses		25,150m		25,822m	Including subsidies and surplus; excluding transfers and admin. savings.
	per person	fund $m	*per person*	fund $m	
Uncommitted Revenue		16,604m		24,300m	Revenue available for a Universal Basic Income / Standard Tax Credit
Full Adult UBI	**$6,150**		**$9,000**		Maximum social dividend payable from uncommitted revenue.
Standard Tax Credit (STC)	**$4,000**		**$7,000**		= 15.2% of GDP p.c. or 26.5% of GDP p.c.
Revenue for Transfers etc.		5,804m		5,400m	Funds available, after STC, for benefits and new social wage initiatives.
Social Wage (SW)	$11,598	41,754m	$13,923	50,122m	per person (adult & child) and, from above, as aggregate
Retained Social Wage	$7,598	27,354m	$6,923	24,922m	Retained to fund committed expenses & adult transfers.
Adult Social Wage	$11,598	31,316m	$13,923	37,591m	Individual, and aggregated per adult.
STC as Partial UBI	$4,000	10,800m	$7,000	18,900m	Social Dividend
Children's Social Wage	$11,598	10,439m	$13,923	12,530m	Individual, and aggregated per child.
Retained STC	$4,000	3,600m	$7,000	6,300m	Existing "child-funded" programmes, added to 'retained social wage'.
New Social Wage Initiatives	$0	0m	$694	2,500m	extra for conservation, education etc.
Adult Transfers	$1,612	5,804m	$805	2,900m	Funds available for supplementary benefits / pensions.