

Creating a Welfare Society based on Public Equity Principles

by Keith Rankin, 23 December 2011

To prevent the global economy from becoming "gummed up" with income accruing to a relatively small number of rich people, a better system of recycling of money is needed than the debt-recycling-system that characterised the 2000s' decade.

One option is paying relatively high wages to ordinary workers, and relatively low salaries to those at the top. While this was the way of the mid-20th century, and still is in some countries, it is a system that requires too much intervention in labour markets, and devalues the importance of those not employed in the labour force.

Another option is relying on the charity of the rich, to pay more in philanthropic transfers than they would be willing to pay in taxes. Pigs might actually fly!

Two final options lie in two "welfare" solutions: the welfare state and the welfare society.

The welfare state is a mean creature that makes begrudging public-private transfers to the unfortunate and the elderly, while expecting the many to subsist on low wages. Full-participation citizenship only passes to the minority who enjoy well-paid work. An expansion of the welfare state sufficient to achieve the necessary level of recycling would be to substantially increase benefit payments, but without addressing the philosophical bankruptcy of a system based on dividing the population into the deserving and the undeserving.

A welfare society on the other hand is a society built on the principles of sharing and inclusion. That includes a concept of shared ownership with respect to those aspects of life that are inherently public, such as the environment, knowledge, institutions and infrastructure. It is a society in which public equity plays at least as important a role as private equity.

New Zealand has a unique welfare society for person's aged over 65. In 1938, 1972 and 1976, New Zealand took significant steps towards becoming a true welfare society. Sadly, much of that initiative was lost in the 1980s and 1990s, and even in the 2000s with Helen Clark's commitment to a concept of citizenship based around successful participation in paid employment. (Clark's view was embodied in her government's introduction of "in-work tax credits" to parents, and in the introduction of KiwiSaver which emphasizes private accumulation over shared public provision of retirement income.)

A true welfare society must recognise the need for income and money to flow through the system, and it should recognise the concept of public equity, of shared ownership of and responsibility for the substantial public sphere that characterises any economically developed economy.

(A good analogy for the flow of income through an economy is the flow of blood through to body. Indeed that was exactly the inspiration, in the eighteenth century, for the circular flow models that feature in today's economics textbooks. If we think of the elite minority as being analogous to the human head, then the flow of blood to the head represents the accumulation of wealth among the elite. Clearly, however, those elite would hardly benefit if the jugular vein that takes blood away from the head was to become blocked. The gumming up of the world economy at present is exactly analogous to a blockage of the veins that recycle blood from the head back to the heart.)

Gareth Morgan and Susan Guthrie have done much recent work on the need for a more equitable distribution system, culminating in their 2011 book, *The Big Kahuna*. They wrote a recent article in the NZ Herald (13 Dec 2011), "[Inequality will lead us to a grim future](#)".

My own work on the topic goes back to 1991, culminating in the 1990s with articles in the 1997 and 1998 issues of the Social Policy Journal of New Zealand: "[A New Fiscal Contract? Constructing a Universal Basic Income and a Social Wage](#)" with some ensuing discussion: "[Universal Basic Income - A Cure or a Worse Disease?](#)" (by David Preston) and my "[Rejoinder to David Preston](#)". This work conjoined with that of Michael Goldsmith in the same issues of the Social Policy Journal: "[Universal Basic Income and the Concept of Citizenship](#)", and "[Universal Basic Income and its Critics: a Reply to Preston](#)".

I returned to the topic early in 2010, with a sequence of articles in Scoop. More recent contributions on this topic – using slightly different language (eg "refundable tax credits", "public equity benefits") – has been presented at conferences in 2010 and 2011: "[Welfare reform: Changing the way we account for taxes and benefits](#)" from the proceedings "[Rethinking Welfare for the 21st Century](#)"; and "[Basic Income Flat Tax and Public Property Rights](#)" from the New Zealand Association of Economists Conference in June 2011.

I have also recently written two book chapters on the topic.

First is "Sustaining Personal Taxation: Use of Flat Taxes and Refundable Tax Credits to raise Equity and Labour Productivity" from the 2011 book "Taxation Issues: Existing and Emerging", edited by Andrew Maples and Adrian Sawyer, and published in Christchurch by The Centre for Commercial and Corporate Law Inc. This article discusses public equity issues in the context of the need in the future to raise productivity by reducing the growth of inputs, rather than seeing economic success solely in terms of increased outputs.

Second, in an international book due out in March or April 2012 – "Horizons of Reform" – my chapter looks at the history of universal welfare in New Zealand and identifies New Zealand's substantial achievements in coming close to creating a genuine welfare society, as opposed to a begrudging welfare state. The chapter also discusses the way forward, by building on what we already have.

The formal reference for the Horizons of Reform chapter is:

Rankin, Keith; "Prospects for a Tax-Benefit Reforms in New Zealand that Incorporates a Basic Income"; Chapter 9; In Pateman, Carole & Murray, Matthew (Editors); *Horizons of Reform – Basic Income Solutions around the World*; International Political Economy Series (IPE); Palgrave MacMillan; *Forthcoming (2012)*

We look forward to another tense year for the global economy, and the economic wellbeing of people around the world. The good news is that such tension facilitates debate that delves beyond the superficialities of political life into the real philosophical issues; a dialogue that helps us to identify the real problems, and to identify the agendas that obfuscate our understanding of the issues that we incline to assign to the "too-hard" basket.

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