

Iain Middleton

# Basic Income

a means to combat the  
marginalisation of vulnerable  
workers in precarious employment

Iain Middleton  
Wellington, NZ  
February 2018

# Basic Income: a means to combat the marginalisation of vulnerable workers in precarious employment.

Paper presented at the 6<sup>th</sup> International Conference on Precarious Work and Vulnerable workers, Auckland University of Technology, 31<sup>st</sup> January, and 1<sup>st</sup> February 2018.

## Contents

Summary	3
Introduction	3
Fundamental Rights	4
How does New Zealand approach these issues?	4
Universal benefits in New Zealand	4
What is a Basic Income	5
Setting the level of a Basic Income	5
The cost of a Basic Income	6
Increasing the velocity of money and economic stability	6
Investigating Basic Income proposals	7
Problems with the existing benefit system	7
Taxation	9
Reducing Effective Marginal Tax Rates with the present system	9
Conversion to a Basic Income	10
A modest Basic Income for New Zealand	10
An optional Basic Income	13
Making Basic Income universal	13
Costs and Funding	15
Conclusion	15
References	16

This paper is a work in progress. Any errors, omissions or opinions are the author's alone.  
The original paper used 1 April 2017 figures for minimum wage and welfare payment rates.  
This version is updated to use 1 April 2019 figures.  
Comments welcome. Send to Iain Middleton [ibmiddleton@live.com](mailto:ibmiddleton@live.com)

## Summary

Employment is increasingly precarious for a burgeoning number of people.<sup>12</sup> The difference between paid and unpaid work is blurring. Paid work, or labour, now occurs in both formal and informal workplaces and inside and outside of conventional working hours.<sup>3</sup> How we view work is changing.<sup>45</sup> With these fundamental changes, there is a need to develop new ways of remunerating work, both paid and unpaid. Is Basic Income the answer?<sup>678</sup>

To optimise the levels of participation and engagement of those in precarious employment in the workplace and the community, present incomes with benefit support are examined and compared with potential incomes with a Basic Income.

A Basic Income ensures that those with precarious employment have a level of regular income. Regular incomes help boost and stabilise local economies. As money flows through society: people with low incomes spend money quickly and locally on necessities while those with higher incomes, exceeding their immediate needs, tend to accumulate money or spend it elsewhere and internationally. Increasing the proportion of money available to those on lower incomes boosts local economies while increasing the velocity of money and government revenues. Alternatively, increasing the proportion of money available to those on higher incomes slows the velocity of money and consequently reduces government revenues.<sup>9101112</sup>

What will a Basic Income look like and how is it funded? A Basic Income paid as a right of citizenship and not abated or taxed back on an individual basis provides an answer. A Basic Income Calculator was developed to investigate and to compare proposals. Parameters considered include: a tax free or taxed Basic Income, and a progressive or uniform tax? Two options considered in detail were a taxable Basic Income with a progressive tax, like the New Zealand Superannuation scheme, and either a taxable or tax-free Basic Income with a uniform tax. A modest voluntary or opt-in Basic Income with a uniform tax stood out as a preferred option. Ways to implement this option are considered.

Changing to a Basic Income eliminates poverty traps and alleviates poverty.

## Introduction

The primary focus of this paper is those with low incomes and in precarious employment; those without permanent employment; those with unpredictable employment or work hours; those who may not work a full week or a full year; and those who earn less than the minimum wage on an annual basis due to their limited hours of work. The paper considers the way the state approaches issues involved with fundamental rights and means of improving outcomes for those in the precariat. The present welfare system is examined to see how it caters for those on low-incomes and how it might be improved to increase wellbeing and compared with the alternative of an efficient Basic Income.

The number of people in precarious employment is increasing, as are the number of jobs in this area, and seeking to eliminate this form of employment is unlikely to succeed. While many in precarious employment would rather have full time and well-paying work, and see precarious employment as undesirable, others seek this lifestyle. They are people who seek occasional work to provide just enough income to meet their modest needs. They may not wish to work a full week for various reasons: perhaps they are caring for family members in need, perhaps they are artists, or perhaps they are following further education. These people need to be recognised.

When a Basic Income is introduced, it is important that the minimum wage, labour regulations, and government services such as education and health are retained or improved, that outcomes for most will improve, and that no one who is currently receiving welfare payments is worse off. While the primary focus of this paper is Basic Income as a solution for those with low incomes, in precarious employment, or on Jobseeker Support, Basic Income payments are usually paid to everyone equally. Consequently, a Basic Income will impact on the incomes of all people and on all welfare payments. Similar principles apply to benefits, such as invalid's benefits, that are currently higher than Jobseeker Support. When necessary, higher Basic Income payments will be paid to these people or the Basic Income made up to current benefit levels, and any additional earned income treated in the same manner as is suggested for those who were previously on Jobseeker Support. The paper also assumes the introduction of a suitable child Basic Income, or alternatively that existing family support payments such as Working for Families are either retained or suitably improved.

## **Fundamental Rights**

Articles 22 to 25 of the Universal Declaration of Human Rights (UDHR), 1948, define relevant fundamental Human Rights. These articles specify the rights to: social security, work, rest and leisure, and an adequate standard of living. The articles are summarised as follows.

Article 22 gives everyone the right to social security in accordance with the resources of the State.

Article 23 states that everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment; without discrimination; with equal pay for equal work; the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

Article 24 gives the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

Article 25 states that everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

## **How does New Zealand approach these issues?**

A raft of measures is in place to meet New Zealand's obligations under the Universal Declaration of Human Rights and other international conventions. Of particular interest is the benefit system, and how benefits such as Jobseeker Support are applied in New Zealand for those in the precariat. Benefits are targeted at those considered to be most in need to keep the cost of the system, and hence taxation, to a minimum. A high level of targeting is achieved, in part, by high levels of abatement; the reduction of benefits as other income increases. But there are unintended and counterproductive consequences from high levels of targeting and abatement. A Basic Income which does not target the benefit with high abatement rates is proposed as an alternative.

## **Universal benefits in New Zealand**

New Zealand has a long history of universal benefits dating back to 1938. A means tested pension for those over 65 was introduced in 1898, funded from government revenue rather than individual contributions. The age of eligibility for the means tested pension was lowered to 60 in 1938 and in the same year New Zealand became the first country to introduce a non-contributory and non-means tested universal superannuation for those over 65. The universal superannuation was of similar value to the pension but taxed. With a progressive or graduated tax system, those with higher incomes received slightly smaller net incomes from the superannuation than those on lower incomes. The pension was retained for low income people who were unable to work beyond 60 due to their deteriorating physical condition. In 1977, superannuation payments were increased in value, the age of eligibility was lowered to 60, and the means tested pension was abolished. Between 1992 and 2001 the age of eligibility for superannuation was progressively lifted to 65. From 1938, apart from a period between 1985 and 1998 when superannuation was means tested, New Zealand Superannuation has remained non-contributory and non-means tested.

A means tested family benefit, payable for each child aged over 2 years, was introduced in 1926. In 1946 the age of eligibility and means testing were abolished making the family benefit a universal payment. The family benefit continued to be paid as a universal benefit until 1985 when a degree of targeting was introduced. In 1991, family benefit was abolished in favour of more targeted benefits.

Implementing a low-level Basic Income will make New Zealand a world leader again.

## What is a Basic Income

A Basic Income is sometimes known as a citizen's income, citizenship income, citizen's dividend, public equity dividend<sup>13</sup>, or social dividend, but it might also be called a New Zealand dividend, or a New Zealand Income, as it represents an equal distribution of a portion of government income to all citizens. The following definition of Basic Income representing the modern consensus is adapted from two recent publications by leading international experts on Basic Income: Guy Standing, *Basic Income: And How We Can Make It Happen*, 2017<sup>14</sup>, and Philippe van Parijs, and Yannick Vanderborght, *Basic Income: A Radical Proposal for a Free Society and a Sane Economy*, 2017.<sup>15</sup>

A **Basic Income** is a modest and non-refundable amount of money paid unconditionally to all individuals on a regular basis, usually weekly or fortnightly. It is basic enough to survive on but not large enough to provide full security. Sometimes called a **Universal Basic Income** because it is paid to all people who are usually resident in a country as citizens or permanent residents, it is paid unconditionally without income conditions or means testing and is a right of citizenship that cannot be taken away except through due process of law. A Basic Income is a non-contributory payment paid to individuals and not households that is financed through general taxation and not by directly taxing the payment back from the incomes of individuals or households that receive it.

An important principal of a Basic Income is that it is paid to all citizens regardless of other income and circumstances. It may, however, be varied according to the age of the recipients. For example, there may be different rates for young children, those in their second decade, for younger adults, for adults, and for superannuants. For those in the younger age groups, a Basic Income may be paid to the principal caregiver rather than the child. New Zealand Superannuation, first introduced in 1938, is an example of a Basic Income in practice, as was the New Zealand child benefit from 1946 to 1991.

When a Basic Income is set at the same level throughout the country it tends to promote regional development and counter population accrual in the largest cities. Some Basic Income advocates allow that some countries might vary a Basic Income by region to allow for different living costs in different regions, but others argue that this will further encourage population movement toward the larger cities and exacerbate problems associated with urban drift such as rural and regional depopulation leading to higher local body rates in the areas suffering population loss to maintain existing but unneeded services, and higher population growth rates in the largest cities that might lead to problems such higher municipal rates to provide new services and to housing shortages.

While a Basic Income is paid to all citizens or permanent residents, Standing (chapter 1, page 7) and van Parijs & Vanderborght (chapter 1, page 9) allow that governments may feel justified in deducting the Basic Income from prisoners, or alternatively charging prisoners for their food and lodgings, as the cost of keeping them in prison exceeds the amount that would be paid to them as a Basic Income. Alternatively, the Basic Income of prisoners might be paid to dependent family members.

A Basic Income has many advantages and only a few are covered in this paper. Trials in Namibia and India indicate that Basic Income payments of as little as four percent of GDP per capita make a measurable difference.

## Setting the level of a Basic Income

Recent authors, such as Standing, and van Parijs and Vanderborght, advocate a Basic Income near the subsistence level, and this would seem to be a reasonable level to use to introduce a Basic Income. A Basic Income removes poverty traps and disincentives to work that occur with targeted welfare payments, such as New Zealand jobseeker support, but a Basic Income of too high a value may itself become a disincentive to work and too expensive or difficult to implement<sup>16</sup>. While some question that a Basic Income, approaching that of a minimum income, or a living wage, is sustainable in the longer-term, others believe it possible.

For an introductory Basic Income, a level below that of both the minimum wage and the living wage would be appropriate. van Parijs and Vanderborght (chapter 1, page 11) argue that a Basic Income should be "both modest enough for us to dare to assume that it is sustainable and generous enough for it to be plausible that it will make a difference". They suggest that "picking an amount in the order of one fourth of the current GDP per capita" will meet this objective, sitting on the border of modest

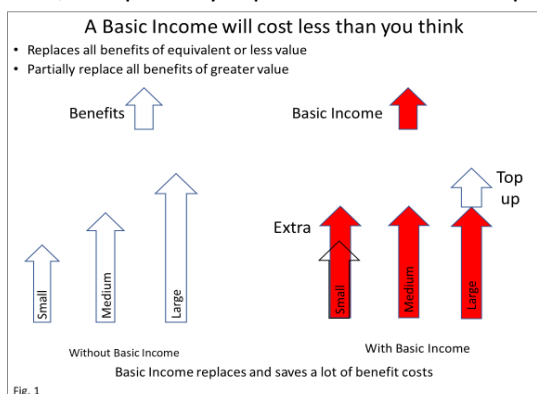
and generous, and above the World Bank's poverty line. They add that arguments may be mounted for higher levels on ethical grounds and lower levels on political expedient grounds.

With the New Zealand GDP per capita now at NZ \$54,110.00 (US \$39,500.00) per annum, one fourth of this gives a Basic Income of NZ \$259.50 (US \$189.40) per week or NZ \$13,528.00 per annum. Using 2019 gross figures and NZ dollars, this is 37% of the 2019 New Zealand Minimum wage of \$17.70 per hour (\$708.00 per week or \$36,917.00 per annum), 27% above the current basic Jobseeker Support for 20 to 24-year olds of \$203.80 per week (\$10,031 p.a.), and 6% above the Jobseeker Support for those aged 25 and over of \$244.67 per week (\$12,758 p.a.). New Zealand pays accommodation supplements in addition to Jobseeker Support adding an additional \$80 to \$200 per week (\$4,171 to \$10,429 p.a.) depending on the region and other factors. With the accommodation supplement added to the Jobseeker support the total exceeds the recommended 25% of GDP per capita for a Basic Income. These figures indicate that the New Zealand Jobseeker Support payment levels are of the right order for an introductory politically expedient and modest Basic Income.

Long standing New Zealand Basic Income advocates generally support a Basic Income in the \$9,000 to \$12,000 p.a. range. Keith Rankin suggests \$175 per week (\$9,125 p.a.) net paid in conjunction with a 33% uniform or flat tax.<sup>17</sup> \$175 is sufficient to offset the \$9,080 p.a. extra tax paid by those with a gross annual income of \$70,000 or greater with a change from a progressive tax to a 33% flat tax. Perce Harpham has suggested a net Basic Income of \$210.95 per week (\$11,000 p.a.) coupled with a 33% flat tax.<sup>18</sup> Gareth Morgan and Susan Guthrie have promoted a Basic Income of \$11,000 p.a.<sup>19</sup>

### The cost of a Basic Income

The net cost to government of a Basic Income scheme is generally much less than many people suspect. It is not a simple matter of multiplying the amount paid by the number of recipients. A Basic Income will replace all benefits and other payments such as student allowances of equivalent or less value, and partially replace all benefits and payments of greater value. See figure 1.



Combined with an appropriate taxation scheme, the money paid as a Basic Income targets those on lower incomes. How this occurs is detailed below.

When a Basic Income or a benefit is paid to those on lower incomes the money is generally spent rapidly on the necessities of life. Consequently, fifteen percent of the money paid to those on lower incomes is almost immediately returned to the government through the Goods and Services Tax (GST). The extra expenditure from the Basic Income generates additional economic activity in the region where it is

spent, increasing local employment and local profits. Consequently, a similar amount is returned to government through income tax, profit taxes, and tax on dividends. The remainder continues to circulate returning more money to the government through GST and other taxes each time the money circulates. This is known as the multiplier effect with around thirty percent returned to the government with each circulation of the money.

### Increasing the velocity of money and economic stability

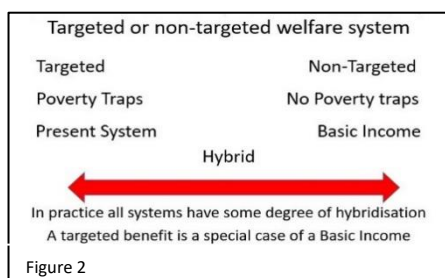
Because a Basic Income increases the proportion of GDP supplied to and spent by those on lower incomes it also increases the velocity of money, further boosting the annual income of government, and allowing government to spend more annually. The increased velocity occurs because those on lower incomes spend money rapidly in the local economy, much of it on necessities, while those on higher incomes tend to accumulate money or spend it in other countries, slowing the circulation. As government takes a percentage of money as taxes each time the money circulates, the faster the money circulates the greater the annual government income will be. As the money is received by the government it is immediately available to be paid out again. Because a Basic Income is not targeted it increases the velocity of money more than highly targeted benefits such as Jobseeker Support.

Tax cuts with a progressive tax system can be counterproductive. They either involve shifting the income bands for the different rates, or lowering the tax rates, or both. Whichever way a tax reduction is implemented, those whose incomes fall into the highest tax band will gain the full benefit of the tax reductions while those on lower incomes receive only part. This increases higher net incomes while lowering the proportion of net income received by those on lower incomes, slowing the velocity of money and thus reducing the annual tax income of government. The reduced government income leads to calls for further reductions in expenditure which further reduces government income. Implementing a Basic Income, as an alternative to tax cuts, increases the velocity of money and government tax revenue as it increases the proportion of income received by those on lower incomes. A steady stream of money paid to all members of society by government boosts local economies and the economy as a whole, and over time acts to stabilise the economy. When there is an economic downturn, the money paid out by the government as Jobseeker Support or as a Basic Income keeps local economies going and continues to return taxation to the government. If, however, the government responds to a downturn by cutting expenditure it will result in a fall in government revenue and a call to further cut expenditure! Because a Basic Income is not targeted, it is a more effective economic stabiliser than targeted payments such as Jobseeker Support.

### Investigating Basic Income proposals

Investigating Basic Income proposals requires many tedious calculations to determine taxation and net incomes for a range of gross income values. Comparison of different proposals requires simultaneous calculation and comparison of the different proposals over a wide range of incomes. To simplify this process, a Basic Income Calculator was developed that allows easy variation of input data while simultaneously viewing outputs in table form and graphically.

### Problems with the existing benefit system



Tax and benefit systems transfer value, money, or benefit from those on higher incomes to those on lower incomes. By taxing incomes with either a uniform tax, also known as a flat tax, or with a graduated or progressive tax, those on higher incomes will pay more tax in total dollars than those on lower incomes. This gives governments money to spend on essential services or to supplement the incomes of those on lower incomes to ensure that they receive a basic or minimum level of income.

Consider a line from left to right, figure 2, with highly targeted payments at the left and non-targeted payments at the right. The present targeted system lies to the left and a Basic Income at the right.

The difference between the two lies in the degree of targeting. While a Basic Income is available to all, Work and Income New Zealand say that the current Jobseeker Support is only available to:

“those who are not in full-time employment, who are available for and seeking full-time employment, have taken reasonable steps to find, and be willing and able to undertake employment, or would meet the above qualifications but are temporarily unable to because they qualify for an exemption from their work obligations, or not be in full-time employment, are willing to undertake it, but because of having a health condition, injury or a disability, are limited in their capacity to seek, undertake, or be available for full-time employment, or be in employment, but because of a health condition, injury or a disability are losing earnings because they are not actually working or are working at a reduced level and have no income or an income of less than the amount that would fully abate the benefit”.

Jobseeker Support may be withheld from anyone deemed to not be seeking work, and those who have a working partner, albeit on a low income, may not receive Jobseeker Support.

The reference to abatement is important. Those on Jobseeker Support are entitled to earn \$80 per week before their Jobseeker Support payments are abated at the rate of 70 cents for every dollar earned. We would expect that many on Jobseeker Support would seek and find part or full-time work at or near the minimum wage to supplement their incomes. The \$80 equates to just 4.5 hours work at

the minimum wage of \$17.70 per hour. Above this, any additional income is reduced by both the 70 cents abatement and standard minimum tax rate of 10.5%, an effective marginal tax rate (EMTR) of 80.5%. This leaves a person on Jobseeker Support and the minimum income with just 19.5% of their earnings or \$3.45 extra per hour after taxation and abatement. Their net pay will further reduce when they exceed 15.17 hours work as this takes them into the next tax bracket of 17.5% giving an EMTR of 87.5% and leaving them with just 12.5% or \$2.21 net income per hour.<sup>20</sup> These low net pay rates may not cover the extra costs associated with working, such as clothing, transport, and other costs. In reality, the situation is worse as employers must deduct tax at a slightly higher rate and other allowances such as the accommodation allowance are also abated.

With payments such as the accommodation allowance abated from the first dollar earned, and demands for Accident Compensation Corporation (ACC) payments, those seeking employment may end up with an EMTR exceeding 100%, that is, with no extra income or a loss of income for working more than four and a half hours per week! Speaking to those who have been in this position and to former Work and Income staff, reveals that many who find part time work suffer a net loss of income – an EMTR greater than 100%. Others report that due to the complexity of the regulations the deductions calculated may depend on the Work and Income officer who attempts to calculate them. The system leaves people feeling disempowered and trapped on very low levels of income.

In these situations, work avoidance is a rational behaviour. People either realise in advance that working will provide them with limited or no rewards or will reduce their net incomes and wellbeing, or they will learn so from experience, or from the experiences of others.

Although part time jobs are now available in some areas, but not full-time work, and many beneficiaries prefer part time work, the abatement system was ostensibly designed to induce beneficiaries to take up full time rather than part time work. Because of the high abatement rates, the rewards for full time work on the minimum wage are small, just \$10.37 net per hour or \$414.68 net per week. Again, the abatement or loss of other allowances and extra costs such as ACC, clothing, and transport can result in little or no financial reward. The abatement system discourages those who would like to work and as a consequence many beneficiaries may just opt to not work at all.

The benefit system discourages rather than encourages work. It becomes punitive with Jobseeker Support withheld from those not seeking work. Threats and coercion are used to try and encourage people to work in situations that may not be in their financial or best interests. High EMTRs are a major disincentive to work. They create a poverty trap where any increase in hours worked and earned income results in a loss of benefits so that a person is either no better off or worse off.

In these circumstances, the major focus of those receiving Jobseeker Support turns from seeking employment to seeking to maintain or maximise their incomes. They look for ways to continue to receive the benefit payment while adding to their incomes by whatever means they can. Some will work for cash and not declare their working incomes. Tax avoidance and evasion increases, and some turn toward illegal activities and earnings to supplement their incomes.

Another problem arises because people on Jobseeker Support are asked to predict their hours of work so that their Jobseeker Support payments can be abated in advance. In practice, hours of work for those in precarious employment are unpredictable so adjustments must be made retrospectively and this amounts to a significant additional administrative cost and stress for those on Jobseeker Support. Dr Jess Berentson-Shaw, interviewed on Radio New Zealand, National, on 22 June 2017, stated that \$280 m. p.a. was at that time spent on administering benefits, and collecting overpaid benefits. This sum is now over \$330 m. p.a.

There needs to be a net positive financial reward for hours worked to provide an incentive to work.

In an attempt to “target” payments to those most in need, the abatement rates have been increased to the point of absurdity. The point where the disincentives to work for the recipients of the payments exceed the benefits of work, and to the point where the administrative costs of such a high rate of targeting exceed the presumed but dubious benefits of the high level of targeting. Rather than encouraging and rewarding work, the system appears designed to drive people into a life time of poverty, work avoidance, servitude and debt, tax avoidance and evasion, and other illegal activities.



Long stand down periods before a person becomes eligible for Jobseeker Support also lead to hardship and encourage illegal activities and need to be reduced or abolished.

To encourage workplace participation for solo-parents, a lower abatement rate has already been applied. Earnings of \$100 per week, rather than \$80, are allowed before abatement begins and the first abatement rate is 30 cents for each dollar earned giving an initial EMTR of 40.5%. After \$200 is earned the abatement rate rises to the standard 70 cents for each dollar earned.

### **Taxation**

Governments make payments and tax back the money from the population in general to achieve a net balance with payments over time. Taxation needs to be both equitable and rational. As with a Basic Income, a fundamental principal of taxation is that governments must apply the same taxation rules to all citizens. Taxation cannot be varied according to personal situations as this would be discriminatory. Neither should tax negate benefit payments by targeting those who receive the benefits.

Many countries, including New Zealand, have a progressive or graduated income tax system where the rate of taxation increases in graduated or progressive steps as income increases. However, some thirty-seven countries have a uniform or flat tax system that taxes all income at the same rate. A uniform tax is a special case of a progressive tax that occurs when all the steps of the progressive tax are equal to zero. Changing to a uniform tax without other compensation for those on lower incomes will significantly impact on the net incomes of those with low incomes and is not desirable, but combined with a Basic Income, a desirable and progressive system is achieved.

A progressive tax is one way of ensuring that when welfare payments are paid equally to all, those on higher incomes receive lower net payments than those on lower incomes. A Basic Income may be applied with a progressive tax in place, as is done with New Zealand Superannuation. However, with a modest Basic Income, as proposed, a very desirable targeted income system is achieved through the combination of a Basic Income with a uniform tax with either no or very limited allowable deductions.

In New Zealand, welfare benefit payments are almost always gross payments with income tax deducted by government in accordance with the Pay-As-You-Earn (PAYE) system before the net payment is made. Consequently, as other income increases the progressive tax system reduces the net payment. With a uniform tax, there is no reduction in the net payment with increased earnings as everyone is taxed at the same rate and the net payments to all people are the same.

The reason that a Basic Income combined with a uniform tax produces a desirable progressive system is because conversion from a progressive to a uniform tax will increase the income tax paid by all income earners. With the current tax scales with a maximum tax rate of 33% for all income over \$70,000 gross p.a., conversion to a 33% uniform tax will result in all those earning \$70,000.00 p.a. or more paying an additional \$9,080.00 p.a. in tax. Those with no earnings pay no tax and no additional tax with a uniform tax. Those with earnings between zero and \$70,000.00 p.a. will pay progressively more tax up to the maximum of \$9,080.00 p.a. If the Basic Income is set at a net value of \$174.14 per week, \$9,080.00 p.a., those with no income will receive the full amount of the Basic Income while those earning an income from paid employment will receive a net increase in income that progressively reduces to zero when their employment income exceeds \$70,000.00 p.a.

Proposals to couple a Basic Income to a progressive tax with a reduced maximum rate of income tax, less than the current 33%, or to implement a Basic Income with uniform tax rate that is less than 33%, say 30%, would amount to a tax cut for those on higher incomes. Tax revenue will be less and the ongoing cost of the Basic Income will be greater as those on higher incomes will receive significant benefits from the Basic Income requiring extra increases in other taxes to compensate. A Basic Income with a uniform tax gives increased income where the need is greatest, but not if the tax rate is reduced below the current maximum tax rate. A Basic Income with a progressive tax with the current tax rates or with a cut in the maximum tax rate, is not desirable and benefits those on higher incomes.

### **Reducing Effective Marginal Tax Rates with the present progressive tax system**

Reducing the rate of abatement for those on Jobseeker Support will improve equity with those on higher incomes and overcome existing problems with high Effective Marginal Tax Rates (EMTRs).

Reducing the abatement rate from 70% to 22.5% will result in an initial EMTR of 33% when the initial

tax rate of 10.5% is added. This is the same value as the maximum rate of taxation or EMTR for those earning an income of \$70,000 p.a. or greater. Equity, or fairness, would suggest that the EMTR for those on Jobseeker Support should ideally be lower than or no higher than the maximum marginal tax rate of 33% for those earning income without support payments.

However, Jobseeker Support does not fully abate before the second tax bracket occurs, so the EMTR will rise to 40%, 22.5 % plus 17.5% tax. To ensure that the EMTR does not exceed 33% for those in the second tax bracket, the rate of abatement needs to reduce to 15.5% for those in the second bracket. But a two-stage abatement further complicates the administrative of the scheme and adds to the cost. Lowering abatement rates to give an EMTR no greater than 33% will largely remove disincentives to work. Those working at the minimum wage of \$17.70 will receive a net income of 67% of their earnings or \$11.86 for each additional hour they work. This is a positive financial incentive to work and is significantly greater than the \$3.45 or \$2.21, depending on their tax bracket, that they receive at present.

Lowering abatement rates eliminates the poverty traps caused by high abatement rates but does nothing to reduce the high costs and difficulties of administering the welfare system. Reducing administration costs and difficulties is achieved by conversion to a Basic Income.

### **Conversion to a Basic Income**

When the present young person's or under 25 Jobseeker Support of \$182.47 p.w. is paid with the reduced abatement rate of 22.5% and the present progressive tax system, giving an initial EMTR of 33%, is compared with the alternative of a Basic Income of the same net amount coupled with a uniform tax of 33%, the difference in net income is less than 3% over a large range of incomes. The difference occurs because the tax rate increases from 10.5% to 17.5% for annual incomes over \$14,000. With a two-stage abatement, 22.5% reducing to 15.5%, to limit the maximum EMTR to 33% the difference falls to less than 1.25%. The Jobseeker Support with the reduced abatement rates and a progressive tax system thus closely emulates a Basic Income with a 33% uniform tax, as shown in figure 4 below. This close correlation is not achieved when Jobseeker Support paid with a reduced abatement rate is compared with a Basic Income paid with a progressive tax system.

Paying a Basic Income with a 33% uniform tax on all income is administratively very simple and significantly less costly than a Jobseeker Support payment abated at 22.5% with a progressive tax. A Basic Income is also more difficult to defraud. Once in place, the cost to maintain a Basic Income system is very low, as it is for New Zealand superannuation. Consequently, replacing the Jobseeker Support with a Basic Income of the same net value plus a uniform tax of 33% is the obvious thing to do. This would require the introduction of a single new uniform tax rate of 33% to sit alongside the existing progressive tax system and tax rates. A single extra uniform tax rate is easy to implement at a very small cost.

### **A modest Basic Income for New Zealand**

Governments must set taxes to balance payments over time. The larger the value of a Basic Income the larger taxes must be to pay for any extra cost resulting from the Basic Income. For this reason, it is desirable that a Basic Income be set at a modest level.

Examination of net to gross income curves, figures 3 to 6, show that when low effective marginal tax rates are desired, the combination of a Basic Income with a uniform tax will work to alleviate poverty in the low-income groups while delivering smaller increases in income to those on high incomes than a Basic Income coupled with a progressive tax. Combining a Basic Income with a uniform tax will thus minimise the cost of the Basic Income scheme while achieving the principal objectives of better income distribution and the relief of poverty for those on low incomes.

The graphs, figures 3 to 6, plot income after tax or net annual income (vertical axis), against income before tax or gross annual income (horizontal axis). In the graphs, the diagonal line "A" from zero net income shows net income with no taxation, that is, when net income and gross income are equal.

The lower curved line "B" shows net income or after-tax income using the present progressive tax. Line B becomes a straight line above the threshold for the maximum tax rate, \$70,000. In Figure 3, line "B" shows net income with no income support. In Figures 4, and 5, line "B" shows net income with an

added Jobseeker Support at the young person’s rate for 20 to 24-year olds of \$203.88 gross or \$182.47 net per week. In Figure 6, line “B” shows net income with the adult or over 25 Jobseeker Support of \$244.67 gross or \$218.98 net per week.<sup>21</sup> Line “B” in figures 4 to 6 includes Jobseeker Support with an \$80.00 per week earnings threshold, and a 70 cent abatement for each dollar of earned income<sup>22</sup>. It shows how the Jobseeker support lifts the net incomes of those with no or small earned incomes, and that over the range where the Jobseeker Support is abated the gain in net income with additional hours worked is very small, providing very little or no incentive to work.

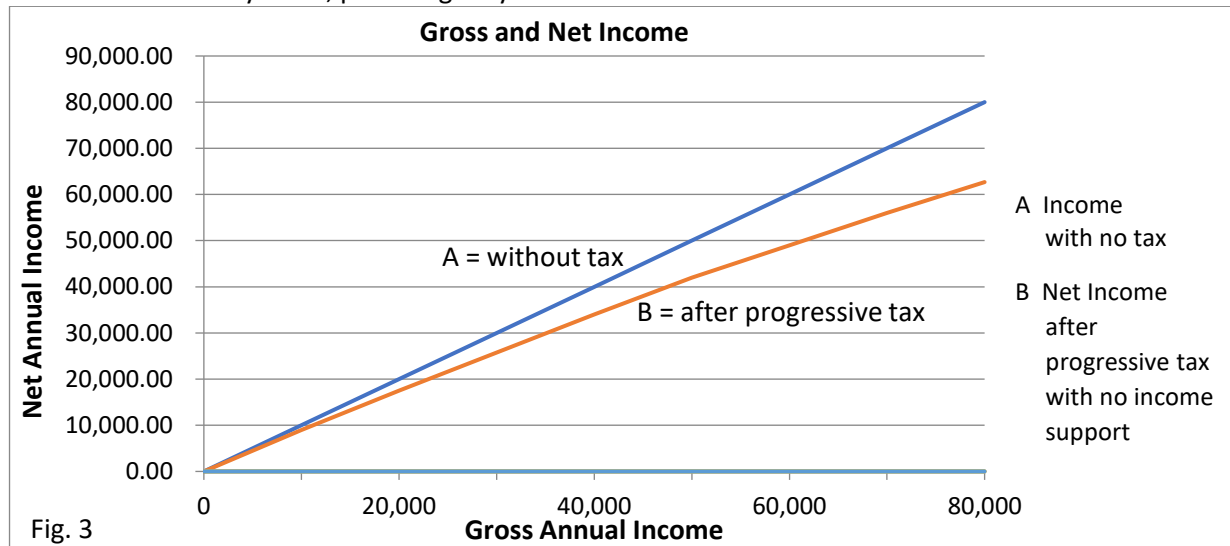


Figure 3. Gross and Net Income with no income support and progressive tax.

In Figure 4, the upper straight line labelled “C or D” shows net income with a reduced abatement rate or alternatively net income with a Basic Income of the same net value as the Jobseeker Support payment for a person under 25 (with no income) paid in conjunction with a uniform tax of 33%. Lines “C” and “D” are identical when the effective marginal tax rate (EMTR) of line “C” is the same value as the uniform tax rate of line “D”. With a Basic Income, net incomes will increase for those earning over the current income threshold of \$80.00 per week (\$4,171.50 p.a.) but do not increase significantly for those in the highest tax bracket earning over \$1,342.47 per week (\$70,000 p.a.).

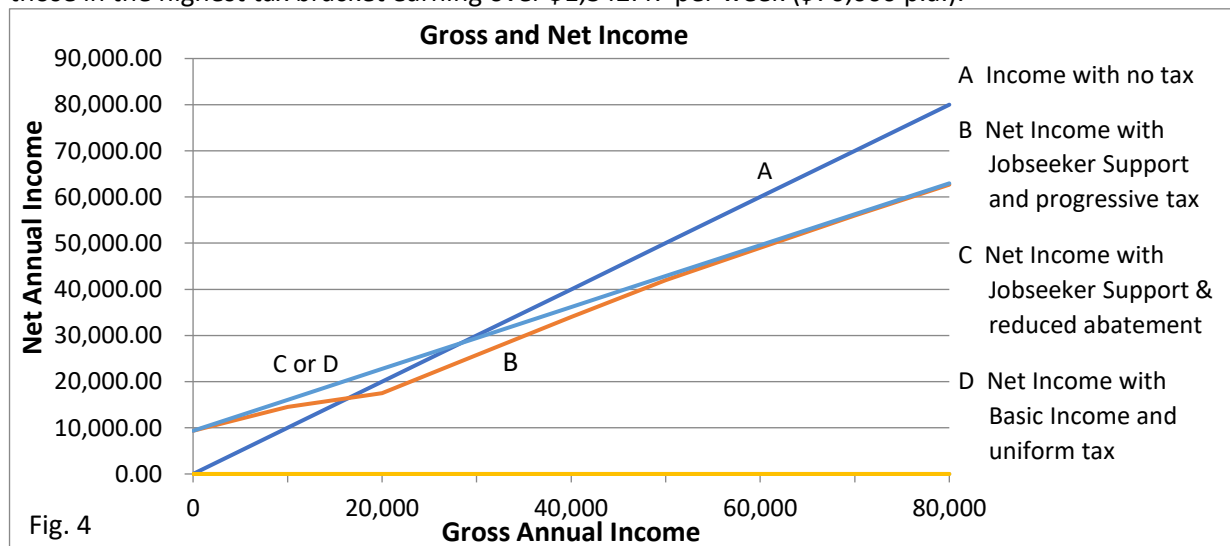


Figure 4. Gross and Net Income with Jobseeker Support for under 25, and with a BI with 33% uniform tax.

The objectives of adequate reward for hours worked and enhanced incomes for those with lower earnings are achieved without significantly increasing the income of those with higher incomes. This minimises the cost of implementing a Basic Income. The most significant increases in incomes occur with earned incomes in addition to Jobseeker Support between \$144.00 per week (\$7,500.00 p.a.), and \$863.00 per week (\$45,000.00 p.a.). This will substantially alleviate poverty in this critical range.

In Figure 5, the curved line “E” shows net income with a Basic Income of the same net value as the Jobseeker Support paid with the present progressive tax system. While the net incomes of those on lower incomes increase and adequate rewards for work are achieved, those on higher incomes will also receive a significant proportion of the Basic Income. This provides additional income to those who least need it or do not need it and significantly increases the cost of providing a Basic Income.

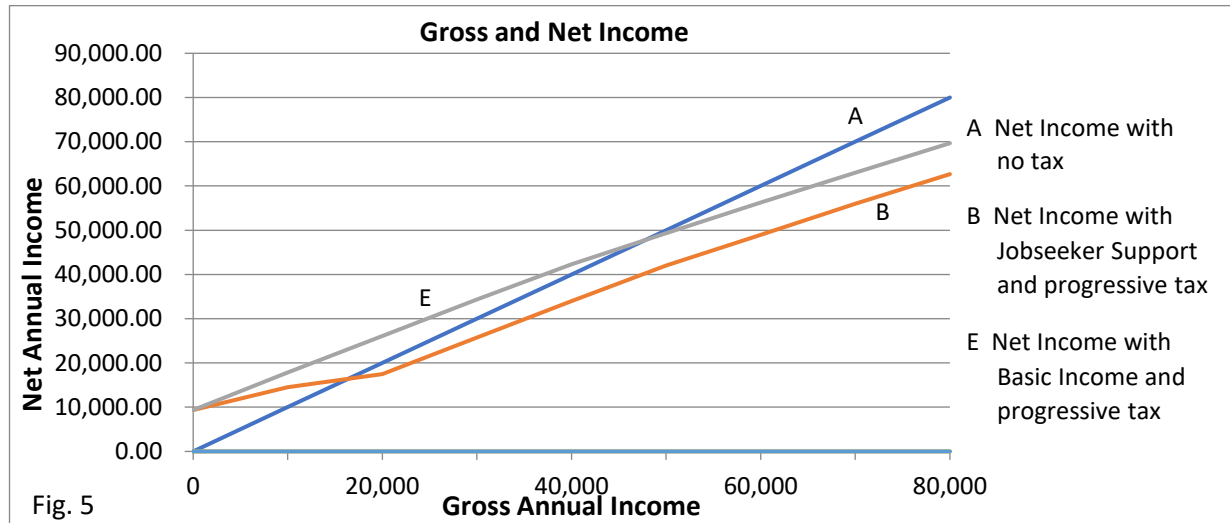


Figure 5. Gross and Net Income with Jobseeker Support for under 25 and with a BI with progressive tax.

Figure 6 shows the higher level of Jobseeker Support paid to those over 25 of \$244.67 gross or \$218.98 net per week. Line “C” shows net income with a reduced abatement rate giving an EMTR of 33% and line “D” shows a Basic Income of the same net value with a 33% uniform tax. With these values, lines “C” and “D” are the same. With the higher value of Jobseeker Support or Basic Income, those on higher incomes continue to receive a small net portion of the Basic Income, encouraging them to accept the Basic Income but delivering some increased income to higher income earners. With further increases in the Basic Income value, those on higher incomes will receive a greater net proportion of the Basic Income and the cost of the Basic Income will rise at an increased rate.

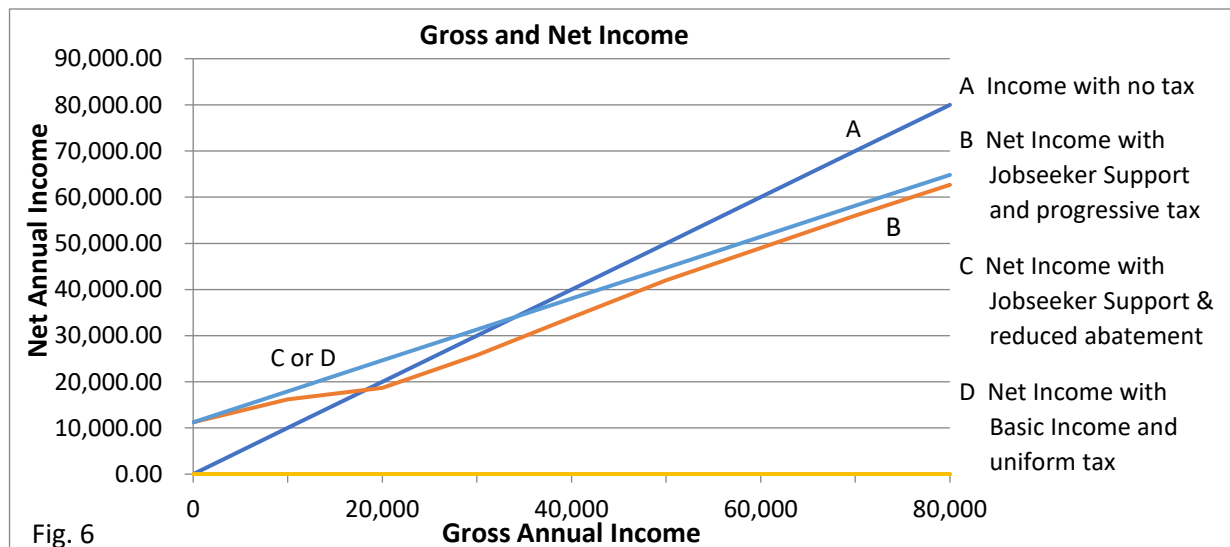


Figure 6. Gross and Net Income with Jobseeker Support, and with a BI for 25 and over with a 33% uniform tax.

From the graphs, we can conclude that a Basic Income with a uniform tax, as shown in Figures 4 and 6, will best meet the objectives of providing a monetary incentive to work while improving the incomes of those with low incomes or those in the area of precarious employment without significantly increasing the incomes of those on higher incomes who do not need additional income.

Basic Income with a uniform tax is the most equitable, or fair, and least expensive option for the introduction of a Basic Income system.

While the proposed Basic Income would replace Jobseeker Support, in order to prevent hardship other supplementary payments such as accommodation allowances and child support must be retained or upgraded as necessary, as must expenditure on other government services such as hospitals and education, as any reduction is likely to undermine or reduce the benefits to be gained from the introduction of a Basic Income. Existing regulations, such as minimum wages and laws and regulations designed to protect those in employment, must be retained to prevent exploitation.

Proposed tax systems that vary taxation rates according to the composition of households or to ensure that individual or household incomes do not change when a Basic Income is introduced are discriminatory and not consistent with the fundamental principal that taxation should be applied equally to all people. Such proposals are likely to partially or completely negate the purpose of introducing a Basic Income.

### **An optional Basic Income**

A change to an **optional** Basic Income is possible, an opt-in system, with those seeking Jobseeker Support given the choice of the present Jobseeker Support, with all its problems, or the alternative of accepting a Basic Income of the same value with a uniform tax of 33% on all income. This option could be made available to all people who are on Jobseeker Support at present, or just sufficient numbers to allow a trial of a Basic Income system to see how a Basic Income improves outcomes. The trial could easily be made as large as thought necessary and need not be restricted geographically.

A trial of this nature is however probably unnecessary and a fully available Basic Income could be implemented immediately. After all, New Zealand has been trialling the New Zealand Superannuation scheme since 1938 and knows that it works. International experts are now voicing the opinion that there have been enough Basic Income trials already to demonstrate the value of a Basic Income and further trials are unnecessary.

The introduction of a non-abating modest Basic Income payment with a uniform tax rate may be sufficient to significantly change behaviour leading to increased work participation, the elimination of tax avoidance and evasion, an improvement in health outcomes, a reduction in illegal activities, and the many other benefits that result from universal rather than targeted payments.

The suggestion that a Basic Income might be implemented on an optional basis in conjunction with a uniform tax was proposed by Susan St John in 2015 in her paper, *Improving the affordability of New Zealand Superannuation*.<sup>23</sup> The proposal was to tax anyone receiving New Zealand Superannuation with a new uniform tax while allowing a voluntary sign up for Superannuation. This proposal reduces but does not eliminate the payments to those on higher incomes and hence reduces the overall cost of New Zealand Superannuation while maintaining payment levels for those on lower incomes.

### **Making Basic Income available to others**

Once established, a Basic Income could be made available to everyone. At present, New Zealand Superannuation is optional. You do not have to sign up for it, but most do. Receiving New Zealand Superannuation requires a person to actively apply for it, and while most do so as soon as they become eligible there are some who do not or delay their application until after they retire. Similarly, most benefits may be considered voluntary. You do not have to apply for them and there are some who do not. The Basic Income could be the same, voluntary. However, the granting of a Basic Income would require those who receive it to also accept a uniform tax on all income.

With the 20 to 24-year-old Basic Income of \$203.88 gross per week (\$10,630.89 per annum) and a uniform tax of 33%, a person with no earned income would receive the full net weekly amount of \$182.47 per week, as they do with Jobseeker Support. A person on the minimum gross wage of \$17.70 per hour or \$708 per week (\$36,917 p.a.) would receive an additional net income of \$53.93 per week (\$2,812.33 p.a.) after taxation, and those earning \$1,342.47 per week (\$70,000.00 pa) or greater would receive an additional net income of just \$8.33 per week, or \$434.51 p.a. Regardless of income, a Basic Income provides a degree of security, a small income that will always be there should circumstances suddenly change, such as loss of employment.

While everyone is better off with a Basic Income, those on lower incomes are the main beneficiaries. A Basic Income with a uniform tax targets the benefits to those on lower incomes. As everyone benefits,

particularly those on low to mid incomes, there is an incentive for people to sign up for the scheme. In time it could be made compulsory if most people accept it and it is considered desirable.

There are, however, arguments for retaining the present progressive tax system for those who may not be eligible for the Basic Income, such as non-citizens. Without a Basic Income, changing to a uniform tax can result in significant increases in taxation and loss of net income as a percentage for those on low incomes while having little impact as a percentage for those on higher incomes.

Introducing a Basic Income with the present progressive tax system will make those on higher incomes significant beneficiaries and the net cost of implementing the scheme will be substantially higher than with a uniform tax. To counter this, income tax levels must be significantly increased with resulting increases in EMTR, or alternatively other taxes must be significantly increased or new taxes introduced, causing other distortions to the economy. A Basic Income with a uniform tax is the simplest system to implement and the fairest or most equitable and affordable option.

As previously noted, a Basic Income may vary with age. At present those over 25 receive a larger Jobseeker Support of \$244.67 gross (\$218.98 net) per week or \$12,757.79 gross (\$11,418.24 net) per annum. There are two ways to tackle this. The first option is to make the lower gross payment of \$203.88 for those age 20 to 24 a Universal Basic Income and provide a top up for those over 25, but this is administratively complex. The second and simpler option is to make the higher sum of \$244.67 gross the Basic Income payment for those aged over 25.

For a gross Basic Income of \$244.67 per week, \$12,757.79 p.a., those receiving no other income would receive the full benefit, as they do with Jobseeker Support. Those on the gross minimum wage of \$708.00 per week (\$36,917.14 p.a.) would receive an additional net payment of \$90.44 per week (\$4,716.06 p.a.) and those receiving \$1,342.47 per week (\$70,000.00 p.a.) gross or greater would receive an additional net payment of \$44.84 per week (\$2,338.24 p.a.). Again, the increases in income are greatest for those on lower incomes, but everyone will receive something.

If the level of a Basic Income is greater than the current modest over 25 Jobseeker Support level, costs begin to rise significantly as recipients on higher incomes will receive a larger benefit from each additional dollar paid. It is therefore important to limit the value of a Basic Income to modest levels. Proposals to implement higher Basic Incomes require significantly greater increases in taxation to pay for them, creating problems with high Effective Marginal Tax Rates or the reintroduction of high abatement rates that will negate many of the benefits of the Basic Income. Overall a modest Basic Income is politically expedient as it will meet less political opposition than a higher value Basic Income. Another possibility to minimise the cost of a Basic Income is to increase the rate of the uniform tax as the level of the Basic Income payment increases. Thus, a person aged 24 or under receiving the young person's Basic Income is taxed at a uniform 33%, but a person aged 25 or over and receiving the higher adult Basic Income might be taxed at 35%. As the rate of payment increases further, the rate of the uniform tax might be increased to minimise the net gain in income for those on higher incomes. Consequently, a person's individual uniform tax rate will be tied to the level of the Basic Income they receive. As there will only be a limited number of different Basic Income payment rates there will be a limited number of uniform tax rates.

Susan St John proposed that for higher levels of Basic Income, such as those for New Zealand Superannuation, an alternative two-tiered progressive tax with a lower rate of 17.5% tax for those earning under \$15,000 and a higher rate of 39% for those earning greater than \$15,000. This reduces the impact of a change to a uniform tax for those on superannuation earning low to middle incomes while limiting the increase in income for those on higher incomes<sup>24</sup>. A similar two-tiered tax system might be considered for those on an adult Basic Income. A disadvantage of a two-tier system is that the lower the rate of the first tier the higher the required rate of the second tier and hence the higher the effective marginal tax rate.

A Basic Income, once implemented, must be indexed in line with inflation to maintain its value and may be progressively increased in real value over time if this is considered desirable.

Increasing the real level of Jobseeker Support and similar benefits before a Basic Income is implemented may, however, make it more difficult to implement a Basic Income at a later date.

Increasing the payment levels of a Basic Income after first introduction may require the reintroduction of abatements and again result in undesirably high EMTRs.

Overall, reduced abatement rates and EMTRs are more important than providing high levels of Jobseeker Support or Basic Income.

Changing to a Basic Income with a uniform tax may be considered to be a tax cut where the greatest tax cut or net increase in income is received by those on the lowest incomes. This differs from and is more desirable than tax cuts under the present progressive tax system where the greatest gains in net total dollars are always received by those on the highest incomes.

### **Costs and Funding**

The above calculations and graphs show that the most cost-effective way to improve the present Jobseeker Support system is to change to a Basic Income system with payments of the same net values as are paid under Jobseeker Support and with the Basic Income paid in conjunction with a uniform tax. This gives the greatest income increases to those with the lowest incomes.

Trials of Basic Income in various countries indicate that unemployment falls because the local economy is stimulated creating more employment and because poverty traps are removed. Tax evasion and avoidance and crime rates in general, reduce. Consequently, government tax income rises providing additional funding to use to fund the Basic Income.

There will be some increases in government expenditure. There are some on low incomes at present who do not receive Jobseeker Support, but who will be eligible for Basic Income. There will also be some who receive increases in net income. Government must meet the increased expenditure levels, but increased tax revenues will partially or fully offset the increased expenditure.

As previously mentioned, most increases in income are only marginal increases as the Basic Income will replace existing payments of equal or less value and partially replace larger payments. With a uniform tax, net income increases for those on higher incomes, the Basic Income less the increase in tax, will be relatively small. Existing taxes such as GST, income, and profit tax, without increases in tax rates, will quickly return a portion of the money to the government so that the money may be paid out again immediately. As the incomes of those with lower incomes increases more than those on higher incomes the velocity of money increases, increasing the number of money circulation cycles per annum, and thus increasing the annual tax revenue of government, allowing a corresponding increase in annual payments.

A Basic income is largely self-funding over time, but to cover any shortfall some have promoted increases in income tax, GST, a land tax, a comprehensive wealth tax, a transaction tax, or other new taxes, and proposed reducing tax loopholes, tax avoidance and evasion, as a means of raising any extra money required. The merits of particular tax proposals are beyond the scope of this paper but spreading any tax increases over various options would reduce possible distortions to the economy.

In the same way that a Basic Income might be introduced to replace Job Seeker support, Basic Income payments might be introduced to replace other welfare payments using the same net values as the payments they replace and using a uniform tax to limit the payments received by those with higher incomes from other sources.

### **Conclusion**

The present benefit system for the unemployed, part time workers, and others with low incomes emphasises cost containment above equity, consistency, simplicity, positive incentives, financial rewards for work, and the wellbeing, and empowerment of those seeking work. High levels of targeting with high abatement rates with the current Jobseeker Support system produces high Effective Marginal Tax Rates (EMTRs), significant disincentives to work, and a poverty trap.

Lowering the abatement rates to give an Effective Marginal Tax Rate similar to the current maximum tax rate eliminates the poverty trap, increase low incomes, alleviates poverty, encourages work participation, and ensures wellbeing, but remains administratively complex and expensive.

Replacing Jobseeker Support payments with Basic Income payments of the same net value paid in conjunction with a suitable uniform tax maintains the level of the payments and achieves the same

results as lowering abatement rates, but also removes significant administration costs. This change would create an efficient and low-cost system targeted to those most in need.

The Basic Income levels proposed are modest and in line with international recommendations. Based on current rates for Jobseeker Support and similar payments they are both politically expedient and acceptable, and capable of being implemented without major impacts on current financial structures while bringing the many benefits of a Basic Income, such as general wellbeing, improvements to health, and boosting local economies, while reducing tax evasion and avoidance and other crime.

The proposed optional or opt-in system is easy to understand, simple to implement, and fair and just. For those who choose to receive a Basic Income a uniform tax on all income will be mandatory. For others who do not choose a Basic Income, the current income supports would remain along with the progressive tax system. Being optional enhances political acceptability of the proposal. With the many advantages of a Basic Income a high uptake rate is expected and might be encouraged.

The proposal makes it possible to easily conduct trials of any size, if a trial is considered necessary. □

## References

- <sup>1</sup> *Work after Globalisation: Building Occupational Citizenship Standing*, 2009, Chapter 4.
- <sup>2</sup> *Precarity: Uncertain Insecure and Unequal Lives in Aotearoa New Zealand* edited by Shiloh Groot, Clifford Van Ommen, Bridgette Masters-Awatere and Natasha Tassell-Matamua, 2017.
- <sup>3</sup> *Basic Income : And how to make it happen* Guy Standing, Pelican 2017, page 160.
- <sup>4</sup> *Basic Income : And how to make it happen* Standing Guy Pelican 2017, page 182-83.
- <sup>5</sup> *A Precariat Charter: From Denizens to Citizens*, Guy Standing 2014. Article 1: Redefine work as productive and reproductive activity.
- <sup>6</sup> *Arguing for Basic Income: Ethical Foundations for a Radical Reform* edited by Philippe van Parijs, 1992.
- <sup>7</sup> *The Precariat: The New and Dangerous Class*, Guy Standing, 2011.
- <sup>8</sup> *Utopia For Realists: And How We Can Get There* Rutger Bregman, 2017.
- <sup>9</sup> *Velocity: Money's Second Dimension* , By. Bryon Higgins, Economic Review June 1978.  
<https://www.kansascityfed.org/PUBLICAT/ECONREV/EconRevArchive/1978/2q78higg.pdf>
- <sup>10</sup> *Changes in Wealth and the Velocity of Money*, G. J. Santoni, FEDERAL RESERVE BANK OF ST. LOUIS MARCH 1981, [https://files.stlouisfed.org/files/htdocs/publications/review/87/03/Changes\\_Mar1987.pdf](https://files.stlouisfed.org/files/htdocs/publications/review/87/03/Changes_Mar1987.pdf)
- <sup>11</sup> *Velocity of money explained* <http://factmyth.com/velocity-of-money-explained/>
- <sup>12</sup> *The velocity of money for beginners* <https://www.joshuakennon.com/the-velocity-of-money-for-beginners/>
- <sup>13</sup> *Public Equity and Tax-Benefit Reform*, Rankin, K, The Policy Observatory, Auckland University of Technology, Unitec Institute of Technology, Auckland, December 2017.
- <sup>14</sup> *Basic Income : And how to make it happen*, Guy Standing, Pelican 2017, chapter 1, pages 3 to 21.
- <sup>15</sup> *Basic Income: A Radical Proposal for a Free Society and a Sane Economy*, Philippe van Parijs, and Yannick Vanderborght, Harvard University Press 2017, chapter 1, page 11.
- <sup>16</sup> WELFARE WORKING GROUP - *OPTIONS FOR REFORM A Guaranteed Minimum Income for New Zealand A Preliminary Assessment of the Tax and Equity Implications*, The Treasury (New Zealand), October 2010.
- <sup>17</sup> *Public Equity and Tax-Benefit Reform*, Rankin, K, The Policy Observatory, Auckland University of Technology, Unitec Institute of Technology, Auckland, December 2017.
- <sup>18</sup> *Solving Some Tax Inequities*, Perce Harpham, Scoop, 15 February 2018.
- <sup>19</sup> *The Big Kahuna*, Gareth Morgan and Susan Guthrie, Public Interest Publishing Ltd, 2011.
- <sup>20</sup> *New Zealand's Social Assistance System: Financial Incentives to Work*, Patrick Nolan, NEW ZEALAND TREASURY WORKING PAPER 03/18, September 2003.
- <sup>21</sup> MINISTRY OF SOCIAL DEVELOPMENT, WORK AND INCOME, *Benefit Rates at 1 April 2018*.  
<https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2018.html>
- <sup>22</sup> MINISTRY OF SOCIAL DEVELOPMENT, WORK AND INCOME, *Wages Deduction Tables*, retrieved January 2018,  
<https://www.workandincome.govt.nz/on-a-benefit/tell-us/income/wages/deduction-tables/index.html>
- <sup>23</sup> *Improving the affordability of New Zealand Superannuation*, Susan St John, Retirement Policy and Research Centre, The University of Auckland Business School, Working Paper 2015-1, February 2015, page 11.
- <sup>24</sup> *Improving the affordability of New Zealand Superannuation*, Susan St John, Retirement Policy and Research Centre, The University of Auckland Business School, Working Paper 2015-1, February 2015, page 11.