LIVING WITHOUT SHAME

A submission to the

Australia's Future Tax System Review

April 2009

Anglicare Australia
GPO Box 1307
Canberra ACT 2601
Tel: (02) 6230 1775
Fax: (02) 6230 1704
email: Anglicare@anglicare.asn.au

Contact: Kasy Chambers, Executive Director

Preamble

Anglicare Australia welcomes the opportunity to make this fourth submission to the review of Australia's taxation and transfer payment system. As a nationwide network of locally based Anglican agencies responding to the needs of some of the most disadvantaged people in our society, Anglicare Australia has a particular interest in addressing the review's objectives through the lens of the federal government's social inclusion agenda and the needs of the most vulnerable Australians.

This paper should be read in conjunction with our initial submission to the Review Panel (Anglicare Australia 2008d); that on the Pension Review (Anglicare Australia 2008c): and that on Retirement Income (Anglicare Australia 2009). In addition there are references in the main body of the text to other Anglicare publications, with which these arguments accord.

It is also written in the context of our submission to last year's Senate inquiry into disclosure regimes for charities and not-for-profit organisations (Anglicare Australia 2008b) and a paper being prepared for the Productivity Commission (on non-for-profit organisations). There is considerable overlap. Hence we shall only summarise or reference arguments already put; but also, when appropriate and for the sake of clarity, quote directly or repeat. This may therefore be read as both a document in itself and as part of a compendium.

A preliminary point about our approach should be mentioned. First, we wish to argue a case mainly about principles, though with due regard to practicalities; we are not proposing a utopian ideal. The next stage of argument — covering technical application — requires discussion of the relevant principles first. Except in the broadest terms, this paper does not contain quantitative projections or modelling. Apart from our limited technical resources, this reflects the fact that, as one critic of the welfare sector put it (Saunders 2005: 6), 'Estimates of likely revenue gains and losses from tax and welfare reforms are notoriously unreliable, especially when analysts try to factor in possible behavioural changes.'

Finally, it should be noted that while Anglicare Australia is the peak body for a national network of locally based Anglican care organisations, the views expressed here may not necessarily represent the views of the Anglican Church of Australia or those of individual members of the Anglicare Australia network.

Executive summary

The most effective conceptual framework within which to consider reform of the tax-transfer system is the capabilities approach pioneered by Amartya Sen and colleagues — one that gives both theoretical and practical force to the federal government's commitment to both economic prosperity and social inclusion. This in turn suggests that the values and policy objectives that characterise the type of society in which Australians might choose to live are most effectively determined within the context of social contract theory, specifically in the Rawlsian interpretation of 'justice as fairness'. From this may be drawn certain basic values and principles concerning citizenship, the relation between state and civil society and the nature of productive social and economic activity. The approach both reinforces the emphasis of classical economists on the moral basis of market behaviour, and describes the logic of an effective and efficient market economy as grounded in` reciprocity and an equitable (though not equal) distribution of income. This would be a monetary expression of the values inherent in the 21st century Australian social contract.

That contract has a number of defining characteristics, all variants of the fundamental insight that social and economic spheres of life are not separate.

- The individual is to be considered above all a *citizen* (as distinct from, but as well as, other roles, such as 'consumer' or 'taxpayer'). This entails mutual responsibility, or the collective rights and obligations of participation in civil society.
- Growth as a basic aim of government policy has to give way to a larger conception of 'the common wealth'. This is in line with mainstream economic thinking about indices of well-being other than GDP.
- The identification of 'productive' and 'non-productive' forms of participation has to be broadened, to include many non-monetised activities like volunteering and caring.
- The distinctions between capital and labour and public and private spheres have, similarly, to be revised.

The moral underpinning of market society, as covered by classical economists, is reinforced by the interdependence of fairness and efficiency. In particular, non-contractual relations based on trust and reciprocity are fundamental to the development of workable bargains.

The basic function of the tax-transfer system is to encourage productive participation (of all kinds) — and thereby maximise capabilities — and to discourage unproductive activities (of all kinds). From this may be derived a number of basic principles to inform specific aspects of the system.

The main implication of the mutual responsibility that defines citizenship is the need for several public and private goods, including financial security. This accords not only with much theoretical argument but also past Australian policy.

Its practical expression is a guaranteed national income. The pertinent questions are the basis on which this is calculated; the conditions applying to its receipt; the means by which it is to be financed; and the administrative division of labour among government agencies most appropriate to it.

Recent research by Anglicare and others provides an empirical basis on which to determine an adequate level of minimum income. This would be an income guaranteed to all, conditional of their willingness to engage in some form of productive participation; or their exclusion from participation by reason of age or infirmity. In the case of 'the waged' whether or not employed in the mainstream economy, it would constitute the tax free threshold. In the case of the 'unwaged', it would come in the form of a regular payment from a designated government agency. For both waged and unwaged, there would be additional conditional payments to deal with the costs of dependent children, disability or old age. The guaranteed minimum income would replace all existing benefits, pensions and allowances.

The new system could be financed at least in part by the abolition of all tax expenditures for PAYE employees; all subsidies for the private sector (such as health fund rebates); all forms of concession that would be accommodated by the minimum income (such as dependent spouse rebates); and inequitable personal concessions (such as favourable treatment for some superannuation earnings; housing investment options and the baby bonus). Legitimate business expenses would be allowed for corporate entities and the self-employed, as under existing arrangements.

There would be three main administrative bodies. An equivalent of the Fair Pay Commission to decide on the basket of goods or capabilities that would determine an adequate minimum income; Centrelink or its equivalent to organise payments for the unwaged; and the Tax Office to oversee the 'administration of things'.

One: Conceptual framework and methodology

1.1 Some first principles

The seven key issues the Panel has identified as comprising 'the challenges, opportunities and other "drivers"' bearing on reform of the tax-transfer system'[1] are, directly or indirectly, all contained in the first: viz., 'the type of society in which Australians might choose to live, including considerations about the role and size of government' (Australian Government 2008b — henceforth 'Paper': 15).

That there can be no uncontested, let alone definitive, response to this issue does not mean we cannot specify certain generally accepted values and aspirations, or outline the main divisions of opinion. As argued in our initial submission, while there is 'near-universal assent about the primacy of competitive markets to secure prosperity — and about the basic value of prosperity — there remain significant differences over the degree to which collective responsibility should temper individualism and remain a defining element of the public culture' (Anglicare Australia 2008d: 6). Current and likely future financial and economic difficulties will exacerbate those differences. As a result, what might be called the 'national conversation' will be vigorous, raising such basic questions as the responsibilities of citizenship, the nature of civil society and the respective and often competing interests of spheres that can no longer be treated in isolation: the economic, social, cultural, environmental, moral. This will require explicit engagement with normative argument: no more so than in the ostensibly technical field of taxation and transfer policy.

The Panel acknowledges this in contending that the principles of equity, efficiency, simplicity, sustainability and policy consistency must underlie any proposed reform, even where they may be in conflict (Paper: 15). Anglicare Australia would go further to propose that a more exhaustive and demanding approach be taken, without losing sight of the Review's practical objectives and boundaries. Whatever system is advocated will embody values of some kind — while ignoring, if not offending, values of other kinds. And the choice of values, unless entirely arbitrary, represents official acceptance of a particular set of arguments. Advocacy, therefore, should consist not only in asserting values but arguing for them. The grounds on which different individuals or groups put their case vary widely; and there can be no final resolution that will satisfy all interests (except at the highest level of generalisation). But the very least we may expect is that those grounds be made explicit — as should be the grounds on which they are accepted or rejected.

That said, there are one or two basic points of agreement. The most fundamental, as the Prime Minister has said, is that Australia is 'a fully

[1] Strictly speaking, the 'tax-transfer system' is the redistributive part of public finance. The tax system itself is a broader phenomenon, designed also to provide public goods, especially in cases of market failure.

contestable secular polity' (Rudd 2006). Like Mr Rudd's, Anglicare Australia's philosophy and policy prescriptions reflect a Christian perspective, without being circumscribed by it. While motivated and informed by the Church's social justice tradition, our arguments and recommendations are made within the general discourse of democratic government and may be meaningfully debated with those of all other positions compatible with that discourse. The terms of debate and the rationale of what government finally decides will be, without equivocation and in line with section 116 of the Constitution, secular.

A second point is that a critical part of the 'full contestation' will be determining which perspectives, disciplines and methodologies are relevant as advocacy, given the Review's general terms of reference. The seven stated challenges and opportunities cover much more (like climate change and technological progress) than is normally accommodated within the field of finance, though all have obvious financial applications and implications. Even economics, with a far broader remit, may at times fail to do justice to the complexity of the several issues involved, especially as they relate to underlying values.[2]

To a considerable extent, this requires a return to first principles: not only to the questions of psychology and history that occupied political economy before the advent of the mathematically sophisticated neo-classical persuasion, but as importantly to the arguments of the moral philosopher Adam Smith. The global financial and economic crisis has thrown the intellectual and ethical basis of the entire market system into stark relief. 'Trust and confidence', we are now being reminded, or told for the first time, are the 'pillars of capitalism' (Hastings 2008). To deal with the consequences of the Byzantine machinations of 21st century finance it is necessary both to understand history and appreciate that those machinations represent a moral failure; it follows that cleaning up the debris is, among other things, a moral challenge (Furedi 2008; Skidelsky 2009; Barber 2009).

This emphasis is consistent with another major element of the federal government's agenda (and the subject of a concurrent Productivity Commission inquiry): the need to 'operationalise' social inclusion as part of 'enhancing the

---

[2] Indeed, the discipline itself has for some time been engaged in a process of soul-searching (e.g. Ormerod 1994; Keen 2001) that has opened it to all manner of revisions — notably in the form of behavioural and neuro-economics (e.g. Camerer 2005; Akerlof and Shiller 2009) — that require multi-disciplinary expertise and, in particular, call into question the basic assumptions of neo-classical theory and modelling. While only a minority might agree with the *Times'* economics editor that academic economists' 'implausible theories' are now totally discredited (Kaletsky 2009), few would doubt, to lift Robert L. Heilbroner's (1967: 161) words, that 'the dry and elegant world which the academicians erected in their classrooms and fondly believed existed outside them' has to be replaced by the work of those who instead 'take the whole burly gamut of human behaviour for their forum'.

economic, social, cultural and environmental well-being of society' and assess and improve the role of the not-for-profit sector in helping achieve it (Productivity Commission 2009). 'Social inclusion', the government has long insisted, is an economic as well as well as social and moral imperative, and vice versa (e.g. Gillard 2008). Indeed, it is 'an objective and organising principle of the nation's social and economic policy' (Stephens 2007). Though there is a potential tension between economic and moral or social objectives, the hope must be that it is 'creative' with the good of the wider community as the common objective (Anglicare Australia 2008a).

Insofar as the tax-transfer system is 'a fundamental part of Australia's social and economic infrastructure', the 'fairness and efficiency' of which 'touch the lives of all Australians' (Treasury 2008a:iii, xi), then it too is a moral topic. This is most evidently the case in discussions of equity; but also of effectiveness, and notably where these might come into conflict with the principle of efficiency. From one perspective, the tax-transfer system overall might be characterised as a moral template translated into monetary terms.

> All men, even the most stupid and unthinking, abhor fraud, perfidy and injustice, and delight to see them punished, But few men have reflected upon the necessity of justice to the existence of society, how obvious soever that necessity may appear to be.
>
> Adam Smith (1790)

For the purpose of the Review, this amounts to two things.

- A critical examination of the values on which existing arrangements are based (or which are simply taken for granted; or inferred from specific legislation, rulings and practices).

- The development of arguments for possible alternatives, where existing values seem inadequate.

This will mean looking at questions like the basis on which tax expenditures are allowed, the meaning of, as well as responsibilities between, capital and labour, and the distinction between paid work and other forms of productive participation, and what this might mean for tax collection and redistribution— all of which rest. ultimately on moral suppositions. That is to say, our proposal for a 'more exhaustive and demanding approach' is in line with prevailing economic debates, general federal government priorities and the stated scope of the Review (Paper: 14).

1.2 The capabilities approach

We have argued elsewhere (Anglicare Australia 2008a: ch. 6; 2008d: 10-12; 2009: 5-7) that the most effective conceptual framework within which to apply the Treasurer's belief that '[t]he purpose of a better tax and transfer system is to promote national prosperity in a way that is consistent with our national values of fairness and equity' (Swan 2009) is the capabilities approach pioneered by Amaryta Sen and others (e.g. Sen 1999: Nussbaum and Sen 1993). It is an approach that gives theoretical and practical force to the federal government's commitment to both economic prosperity and social inclusion. Sen's work is influential in Australian Government thinking (Henry 2007):

> From the Treasury perspective, there is far more to sharing prosperity than simply ensuring that income is redistributed in a way that avoids inequality widening over time beyond some arbitrary level. To our minds, the distributional goals of government must relate to a much broader concept of prosperity, or wellbeing; one that goes well beyond standard inequality measures, or poverty line constructs, based on crude statistical measures of dispersion around mean or median income.

What is missing from these measures — and what ties economic and financial to social policy — is Sen's emphasis on rectifying *capability deprivation* (from which broader social exclusion springs) to provide *substantive freedoms.* These include political and civil liberty, social inclusion, literacy and economic security, which form intrinsic components of individual and social development.

Developing capabilities requires not only access to basic goods like proper nutrition, shelter, clothing, health services and education, but higher order faculties:

> Sen also notes that a second subset of other relevant capabilities of considerable interest to the classical economists — such as the capability to live without shame, the capability to participate in the activities of the community, and the capability of enjoying self-respect — provides a basis for relative poverty comparisons. (ibid)

Only when we are free to express *all* our capabilities may we be said to have fully developed as human beings. The aim of policy in general and the tax-transfer system in particular is to maximise everyone's capabilities within the context of a liberal market society — to secure 'prospering' broadly conceived, rather than 'prosperity' in purely material terms.[3]

To consider the full range of capabilities as not only possible but also, in some sense, a natural *right* presupposes, of course, a moral intuition. Sen and his colleagues are quite open about this. As explained by Martha Nussbaum (2006):

> The basic moral intuition behind [the capabilities] approach concerns the dignity of a form of life that possesses both deep needs and abilities. Its basic goal is to take into account the rich plurality of activities that sentient beings need … for a life with dignity … I argue that it is a waste and a

[3] Nussbaum prefers the term 'flourishing', to emphasise the importance of non-material as well as material interests.

> tragedy when a living creature has an innate capability for some functions that are evaluated as important and good, but never gets the opportunity to perform those functions. Failures to educate women, failures to promote adequate health care, failures to extend the freedoms of speech and conscience to all citizens — all those are treated as causing a kind of premature death, the death of a form of flourishing that has been judged to be essential for a life with dignity. Political principles concerning basic entitlements are to be framed with those ideas in view.

There are various ways in which we might explain this moral intuition. For some, it involves an appeal to a metaphysical belief system such as a religion that proclaims the intrinsic value of human dignity. At the other extreme, it might flow from recognition of our equal helplessness in any order that did not provide for more or less equal treatment.[4] A third possibility (which is closest to Sen and Nussbaum) is to consider it as a natural norm, expressing by the very qualities that define what it is to be a person. In this regard it is akin to 'health'. Just as it would be perverse to inquire why doctors seek to cure the sick (despite it being true that many individuals choose illness, directly or indirectly), so it would be odd, though not illogical, to be indifferent to the stunted growth of natural capabilities.

In any case, it suffices for present purposes to observe that the intuition is compatible with a number of worldviews, both religious and secular; but, more importantly, that it reinforces the Treasurer's stated 'national values of fairness and equity' in the Australian context.

This raises the question of the practical application of these values. Nussbaum talks above about 'basic entitlements' which we may take to refer to those capabilities that allow us to 'live without shame' or have a 'life with dignity'. But there are many other things that might be considered 'entitlements' that are not basic, but to which people might believe they have a claim. Examples include private as distinct from public transport; access to a school or hospital of their choice, no matter what their income; a clean and safe environment with appropriate infrastructure, wherever they happen to live; or a right to employment, whatever their physical and mental condition. Inasmuch as the claim to entitlements embodies possible wants, the list could be endless. It clearly has to be limited. But by what considerations?

---

[4] Thomas Hobbes, for instance, argued in *Leviathan* (1651) that people are equal not because they have an immortal soul (the Christian position) but in that we are all capable of killing or maiming each other. This leads us on totally rational grounds to leave a (hypothetical) state of nature to form a society in which we respect each other under sovereign law. It also leads to acceptance of a significantly redistributionist tax system similar to that based on Nussbaum's moral intuition.

1.3 Capabilities and the social contract

There are two facts that underlie any attempt to address this dilemma. First, people have attributes and opportunities over which they have little or no control. At birth these include their sex, race, class, ability or disability, natural talents, and locality. As they progress through life they may have different opportunities and enjoy different levels and kinds of luck or misfortune. And secondly, any attempt to adjust for the inequalities to which these attributes and opportunities give (or would otherwise give) rise necessarily involves redistribution. In a market society, this primarily means redistribution of income through the tax-transfer system, alongside the provision of public goods.

The salient moral consideration is how and for what ends such redistribution is justified. What would be equitable? This is far from straightforward. While there may be overall consensus about the need to provide for basic capabilities through legally binding entitlements (as in health or education), there will be significant disagreement over the terms of any redistribution. We may take the example of people naturally gifted in sport or singing. In the current order of things, if they pursue their talent they are likely — with or without luck, with or without much effort — to be well rewarded. There might be two fairly extreme 'gut' responses to the question of how they should be taxed. On the one hand, we might be disposed to claim that their success is largely a genetic accident rather than the result of hard work, and that the riches our society puts their way are capricious and, at base, not really 'deserved'. On the other, we might ask why such people should be penalised for their good fortune. (The examples could be multiplied ad infinitum, with numerous permutations on such notions of 'hard work' and 'deservedness'.) Even if we accept the moral intuition about dignity, there appears to be no self-evident basis on which redistribution should be based.

One possibility — which many would consider to be a fairly accurate account of what usually happens in fact — is that both aims and means of redistribution result almost completely from power struggles: whether through threats, lobbying or various forms of patronage. This might be called the 'market' model, comparable with the manner in which income is distributed in general. Thus if carers are valued less than executives or talkback radio hosts, this is simply the result of market forces, the way the pieces fall. It need say nothing about the intrinsic worth of these occupations, merely reflecting how they are paid in practice.

But, of course, there is no such thing as a totally free market. Directly or indirectly, government has to intervene. Even the most dedicated advocates of small government (e.g. Nozick 1975) accept the need for a minimal 'nightwatchman' state — to ensure security, enforce contracts, and generally maintain the rule of law. In practice, the operative issue remains the extent and direction of that intervention. Put another way, while the 'market' model of redistribution may *describe* what happens, or most of what happens, it does not of itself *legitimise* the order.

The traditional solution in the West has been some variant of social contract theory. Apart from its general applications, it is a major concern of capabilities advocates (e.g. Nussbaum 2000). While its basis is a thought experiment underwriting a normative argument for just social arrangements, it is anything but a purely academic undertaking. In its most influential contemporary form, that of John Rawls' *Theory of Justice*, it takes what might be considered a weakness of most redistributive cases — that people are born with unequal abilities and experience unequal levels of luck, misfortune and so on, to which society gives unequal rewards — and turns it into a strength. Both Rawls himself and — more so — Nussbaum have used the central argument as a basis for eminently practical policy development, especially in dealing with poverty and development.

The nub of the argument is that we have to imagine the kind of society we would consider just if we knew everything about it — including inequalities — other than our own particular position. Our consideration would be made under a 'veil of ignorance'. (See Appendix.) Rawls proposes that, although details will always differ — and the national conversation be never-ending (as evidenced by this and other reviews) — there would be two principles of 'justice as fairness' that would underwrite any particular outcome (Rawls 1971: 60–1):

- First, that 'each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others'.

- Secondly: that social and economic inequalities are to be arranged so that:

  - they are to be of the greatest benefit to the least-advantaged members of society (a.k.a 'the difference principle'); and
  - offices and positions must be open to everyone under conditions of fair equality of opportunity.

In blunt terms, rational self-interest (under the veil of ignorance) would lead us to propose a system in which the worst off would still be better off than under any other system we might practicably imagine; and that everyone should at least have the *opportunity* to develop themselves to the best of their (cap)ability.

1.4 Terms of the Australian social contract

Much has been written about Australian political culture and, most vaguely, the 'Australian way' (see Smyth and Cass 1998). In particular there has been extensive, usually critical, discussion of Paul Kelly's (1994) notion of an 'Australian Settlement' and its alleged demise or reformulation (e.g. Maddox 1998; Norton 2001). 'Settlement', obviously, suggests a literal as opposed to virtual social contract, which is more likely to occur in a colony of settlement, or in the course of 'founding' a subsequent nation (the American constitution being the exemplar). Though something of the kind might be said about the constitutional debates that led to Australian federation, the meaning would still be metaphorical. Certainly, what Kelly has in mind is more the delineation of an ideological and institutional tradition.

While almost all commentators are agreed that its original form — focused on White Australia, industry protection, wage arbitration, state paternalism and imperial benevolence — is anachronistic and, in today's moral climate, objectionable, the underlying values of fairness, decency and respect are, for many, 'enduring' (McAuley 2005). While the Anglo-Celtic flavour of those values has been seasoned by significant migration from outside the British Isles, introducing distinct forms of political practice and allegiance, the multicultural upshot retains the central features of Western European liberal democracy. This is important for the contractarian argument since, as Nussbaum explains (2002: 16):

> [T] he capabilities approach feels free to use a political conception of the person as a political and social animal, who seeks a good that is social through and through, and who shears complex ends with others, at many levels. The good of others is not just a constraint on this person's pursuit of her own good. It is part of her good.

Whatever differences exist over points of detail, there is broad agreement on the basic objectives of Australian government and the rationale of the tax-transfer system. Expressed in such tropes as 'a fair go' or notions of egalitarianism and mateship, this agreement may serve a cohesive rhetorical purpose, but remains empirically elusive. We need to be more precise. Ian McAuley (2005) suggests a useful starting point:

> Perhaps the main virtue of the Australian Settlement is that it did not attempt to separate out the 'social' and 'economic' spheres of life. There was no notion of any trade-off; the test of economic policy was whether it contributed to or detracted from accepted social values. It was not anti-growth, but it did accept that growth had to have an ultimate social purpose.

As the financial and economic breakdown has shown, the pursuit of growth as an end in itself is not only questionable as a political ideal but, given the right circumstances, self-defeating. Further, the presumption that economic and moral objectives like social inclusion are compatible, let alone mutually reinforcing, can verge on the heroic.[5] To repeat the main point of the capabilities approach: the aim of social existence is prospering, of which material prosperity (these days) is a necessary but not sufficient condition.

This has certain implications — especially about equity and responsibility (or, more generally, relations among the general population) — and requires unpacking the component parts and rethinking the standard interpretation of certain crucial terms.

1.4.1 Citizenship and civil society

The defining character of the individual within the capabilities approach and the subsequent social contract is 'the citizen'. Citizenship is, in one sense, the fundamental building block of social inclusion. The term must be used with care. It can encompass or be in conflict with other aspects of individuals' lives: their interests, for example, as consumers, parents, or taxpayers. Its antithesis in the 'subject': the typical status of someone living in a creed-based society or other authoritarian regime. It applies to all who legitimately occupy some defined commons or territory — those born in a particular country or migrants who have met the requirements of permanent residence — and also involves taking account of the interests of both the dead and the as-yet unborn in the national family (vertical as well as horizontal responsibility). Hence talk of the 'homeland', 'fatherland' or 'mother country' (Scruton 2002: 24-5). Otherwise put, the contract is not only (hypothetically) among citizens living at any given time, but also among generations over time. To give a pertinent example: agreeing (as a short-term expedient) to arrangements which would put an insuperable financial burden on subsequent generations would not meet the principles of 'justice as fairness'; it would not be the sort of arrangement to which rational self-interested individuals would agree if they themselves had to endure the consequences.

What citizenship connotes above all else is reciprocity or mutual responsibility (Butler 2009): a set of rights and obligations, where the benefits of each are taken to be jointly reinforcing: often, indeed, occupying the same political or civil 'space'. This may be viewed as the collective rights and duties of participation in civil society. Like most political terms, this last has numerous interpretations but for present purposes may be generally taken to mean, after Adam Smith, a natural order to social life within the sphere of mutual dependence: a form of 'associational ecosystem' (Edwards 2004: 94) linked to the production of 'social capital': trust, mutuality and civic mindedness.

The link between the state and civil society is ambiguous and, again, depends on the geographical and temporal context. In the United States, there is a greater emphasis on their separation, the general preference being for autonomous communities and 'small government'. Australia has a much more interventionist tradition in which, on one influential account, the state is viewed as 'a vast public

---

[5] Much depends, of course, on what is understood by 'the economic'. We here use it in the prevailing sense, recognising the far richer meanings the term has enjoyed in the past.

utility whose duty is to provide the greatest happiness to the greatest number (Hancock 1930: 55); and though this may have been diluted during the period of 'neo-liberal' ascendancy from the mid-eighties to the global financial breakdown, it has remained true that the distinction between public and private forms of mutual obligation has been much less straightforward than in the United States. While some relatively few rights and obligations are codified (most obviously in the legal system) others are taken for granted, aspired to, or imagined. Civil society is that area in which individuals collectively link law to reciprocally beneficial traditions and practices.

At its heart, as noted, is mutual responsibility, leading to mutual advantage. An instance is education. Individuals benefit through the development of their capabilities and the material and social gains these make possible. Civil society benefits through the encouragement of socially and economically productive members who, specifically as citizens, have the capacity 'to make informed choices about complex issues' (Stokes 2004: 11).

Ideally, the development of individual capabilities, the collective interests of civil society, and the degree of collective intervention to align these two would be consilient. The fact that in practice this is never so is, however, no more a cause for concern than the fact that democratic process or economic modelling only ever approximates its own standards. The relevant consideration is delineation of an appropriate principle or principles. This has to be a function of fairness, viewed in the context of the uneven variety of capabilities the population naturally displays.

In the case of Australia's tax-transfer system, this boils down to the determination of principles underwriting the fair allocation of financial resources to achieve the best practicable collective interest — as manifested through direct and indirect taxation on the one hand, and redistribution on the other. Until very recently, this has been taken for granted as the collusion of economic prosperity and social inclusion: a social contract in which, as the Treasurer says, '[t]he purpose of a better system is to promote national prosperity in a way that is consistent with our national values of fairness and equity'. Growth, it has been assumed, could accommodate (indeed would be helped by) policies that maximize economic participation. But what should be our priorities if growth is stalled or negative? Or if the worst projections — such as those about oil shortages (e.g. Kunstler 2005) — were to come even remotely true? How dependent is the reciprocity of citizenship on contingent economic circumstances?

To answer this requires a rethinking of some other basic concepts — not least what is involved in identifying 'national prosperity' and 'prospering'.

1.4.2. The common wealth

It is now an accepted part of mainstream economics that growth by itself is an insufficient — albeit very useful — measurement of ‘wealth’. The GDP is simply a gross measure of market activity, of money changing hands — a flow rather than, like wealth, a stock. Its originator, Simon Kuznets, who developed the US national accounts, never intended GDP (GNP) to be a measure of living standards or well-being, but purely a policy tool. As he himself told the U.S. Congress in the 1930s, ‘the welfare of a nation can scarcely be inferred from a measure of national income as defined by the GDP’ (cited in Roberts 2007). Among the things Kuznets explicitly excluded from his original statement of national accounts (1929-32) were: ‘services of housewives and other members of the family … services of owned durable goods … earnings from odd jobs … relief and charity … changes in the value of assets … earnings from illegal pursuits (Kuznets 1934: ch. 1). The GDP not only excludes a host of non-monetised activities and impacts, it is completely silent about the *quality* of what it measures. Nor is it directly concerned with distribution.

These deficiencies have now been recognised and to some extent rectified by the development of alternative or complementary indices such as the UN’s Human Development Index (inspired by Sen’s work) which measures factors like life expectancy, literacy, and educational attainment (United Nations Development Project n.d.); and various forms of Genuine Progress Indicator (e.g. Hamilton 1997) which considers factors such as income distribution; the effects of housework, volunteering and higher education; weighted personal consumption; public consumption expenditure (non-defensive); costs of unemployment, underemployment and overwork; private defensive expenditure on health and education; services of public capital; costs of commuting; noise pollution, transport accidents, industrial accidents, irrigation water use, urban water pollution, air pollution, land degradation, loss of native forests; the incidence and non-monetary as well as monetary costs of crime; resource depletion; long-term environmental damage; changes in leisure-time; the lifespan of consumer durables and public infrastructure; and dependence on foreign assets. Official Australian statistics now also recognise the importance of these factors, if not in quite as much detail or using ‘qualitative’ (i.e. subjective) terms; as in the ABS series ‘Measuring Australia’s Progress’ (Australian Bureau of Statistics 2008). The crucial difference from the Genuine Progress Indicator is that the ABS measure deliberately does not attempt to weight and collate its various indices.

> ***The valuable capacity of the human mind to simplify a complex situation becomes dangerous when not controlled in terms of definitely stated criteria. With quantitative measurements especially, the definitiveness of the result suggests, often misleadingly, a precision and simplicity in the outlines of the object measured.***
>
> ***Simon Kuznets (1934)***

If we accept this broader appreciation of national well-being — ‘welfare’ in its best sense — we might contend that its political expression is ‘the common wealth’. In one formulation (Centre for Policy Development 2006):

> That is the collection of shared assets we have accumulated over many generations: not only our ‘hard’ assets such as our roads and railroads and our natural assets, such as soils and water, but also our ‘soft’ assets, including our public institutions, our standards of behaviour in public life, our levels of trust in one another, and the quality of our family and community life.

What conduces to this common wealth (or collective prospering) may be considered constructive (or positive); what detracts from it may be considered destructive (or negative). Any given activity may contribute to both GDP and the common wealth; or neither; or to one but not the other. And there will be cases that are not at all clear cut. Three examples will suffice. A major industrial accident may increase the GDP through monetary expenditure on medical costs, legal fees, reconstruction and the like, but detract from the overall quality of life. Individuals who choose to work fewer hours in order to spend more time with their family (or growing their own food) will detract from the GDP but may add to the total sum of well-being. Forest clearing will add to GDP but eliminate the cleansing function of trees. Here the balance is much harder to assess and may depend, ultimately, on values that are incommensurable.[6]

To express this in the slightly more quantitative terms appropriate to the Review, the nation’s common wealth comprises all those constructive activities that are included in or excluded from the national accounts (GDP), *minus* those destructive activities that were included in, and excluded from, them.

Applied in the most general terms to the tax-transfer system as a means to ‘promote national prosperity is a way that is consistent with our national values of fairness and equity’, this implies that the final purpose of both collection and redistribution should be to encourage (if not maximize) constructive common wealth-producing activities and discourage (if not penalise) those which are destructive.

1.4.3 Productive and non-productive participation

This raises the question of how we identify ‘productive’ and ‘non-productive’ activities. Participation itself is inherent in the mutual responsibility that helps define citizenship. As members of civil society, we are both encouraged and

[6] More generally, while it is clear there will be disagreement over what comprises ‘wealth’, this is not because value-laden judgements are necessarily subjective in a sense that precludes objectivity. ‘Health is better than sickness’ is not of the same order as ‘Oranges are better than apples.’ To think they are is to make a basic category errror. (See the point about natural norms above.)

expected to engage in certain forms of participation (through education, work, community activities and the like) in ways that promote overall well-being. Conversely, there are other forms of participation that are sanctioned or discouraged: from breaking the law to legal but unwelcome anti-social behaviour.

The federal government makes much of the interdependence of social and economic participation. It is, however, evident that — especially in a downturn — there may be a temptation to put a priority on economic objectives. In contrast, the capabilities framework does not consider social objectives, so to speak, as 'add-ons' which must be justified by criteria separate from those which justify economic productivity; but as part of a broader conception of participation which, in part, determines which aspects of GDP-increasing activity enhance the common wealth and which do not.

This division is already acknowledged in government documentation in social inclusion where 'production' is defined as 'participation in economically or socially valuable activities' (Hayes et al. 2008: 10) Similarly, social policy may be defined as a productive factor (Brotherhood of St Laurence 2008: 4). This is consistent with Kuznets' and others' arguments about the significance of the contribution of non-monetised activities (or difficult-to-measure-monetised activities like odd jobs) to national well-being. There is, in other words, no need to posit two sets of criteria in order to classify as 'productive' anything that contributes to the common wealth.

There is, of course, a good reason for distinguishing between monetised and non-monetised activities, especially in the area of taxation. One can easily be measured; the other cannot. But this methodologically convenient division does not deal with the important question of the relative *value* of the various activities in question.

That non-monetised activities do have value — they even, we might say, 'value-add' to GDP — is recognised in the raft of rebates and deductions that cover, for instance, the contributions of spouses, carers and offspring. What that value is remains, however, open to question. Much the same holds for the distinction between 'worker' and 'non-worker'; or even 'public' and 'private' sphere. The only solid distinction, because purely and in some respects uninformatively descriptive, is that between 'waged' (or 'salaried') and 'non-waged'. On the overall issue of value, there are several issues in play. Among the more important:

- First, there is, strictly speaking and even in the monetised economy, no such thing as *a* or *the* 'market rate'. For most employees income is a function of government fiat (through the industrial relations system), bargaining power and luck. For some, such as senior executives able to set their own remuneration packages, it is a matter of power *simpliciter*. For all, there are various government-decided interventions designed to reward some activities or behaviours more than others, through tax expenditures and transfers. The ‘market’ is essentially a metaphor, identified (like ‘disability’ or ‘non-government sector’) by what it not: a control economy where *everything* is decided by government fiat.

- Secondly, we have yet to develop any satisfactory means of determining either the intrinsic or relative value of many types of activity or occupation (whether or not monetised). A game that at one stage was essentially amateur (cricket, tennis) can, without any obvious economic rationale, become highly professional and therefore monetised, such that players in different eras earn remarkably different amounts. There is no self-evident reason an insurance salesman should earn more than a university professor or cleaner; or a singer more than a heart surgeon. To say (see above) that this is the result of market forces is not only to beg major questions, but also to ignore the numerous de jure or de facto government subsidies that underpin these income disparities and market failures. Thus there is a significant normative question about the (monetary) value accorded various activities that are badly paid (nurses in aged care homes, for instance); and even more so about activities that are not paid at all, or only indirectly (like many carers).

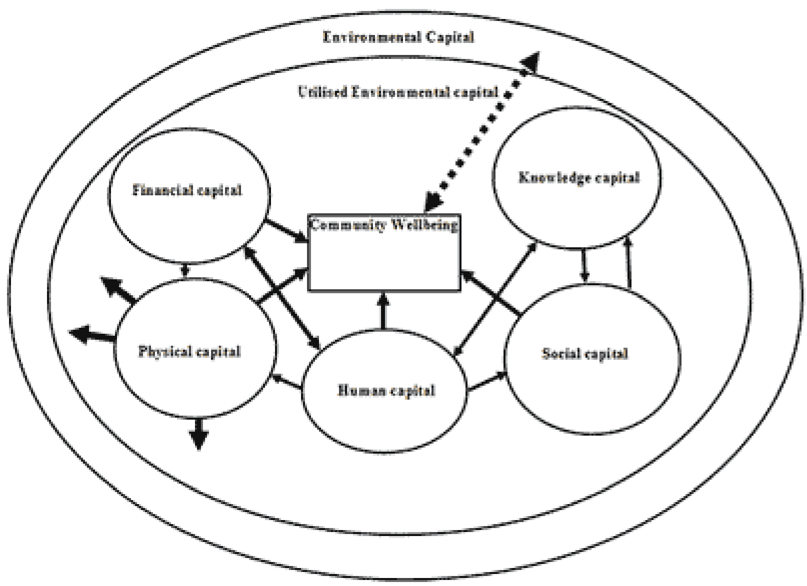
- But third, there *have* been reasonably successful attempts to quantify intangibles. The most influential is perhaps that of the World Bank (2005) in its study of intangible capital. This includes trust, the rule of law, clear property rights and effective government. For most countries, it constitutes the largest share of total wealth. The Bank’s regression analysis concludes that the rule of law explains 57 per cent of countries' intangible capital, with education contributing 36 per cent. The underlying tools of measurement (which incorporate value) are naturally open to interpretation and disagreement, but at least have contestable terms of reference. They indicate the *possibility* of a quantitative judgement that is not entirely arbitrary.

The tax-transfer system has to deal with all of these categories: productive and non-productive, waged and non-waged, valued in various ways by government fiat and whatever we may understand by ‘the market’. In so doing it embodies certain values, whether by commission or omission. Questions of fairness (and of the final purpose of public policy) arise at every point.

1.4.4 Capital and labour

While by no means exclusive to the capabilities approach, an expansive treatment of ‘capital’ and its relation to labour is pivotal to the approach’s policy applications. While the concept is conventionally viewed in financial or physical terms, there is increasing acceptance of a broader denotation, to include human, social, intellectual, institutional and natural capital. The common thread is accumulated value which may be used for the creation of wealth (or abused for its deterioration). Education or any skill set, for example, is a form of intellectual capital which is quite as important as (if not, increasingly, more crucial than) finance. Environmental capital in the form of limited natural resources can be as profitably invested or wasted as money in the bank. And social capital can play as essential a role in maintaining productive activity as plant or raw materials; in the form of trust, it helps reduce transaction costs and formal regulations. And all governments now explicitly acknowledge the need to foster human capital (Council of Australian Governments 2006).

These various forms of capital are intertwined and, for those given to neat demarcations, messy. As depicted in a paper prepared for the then Department of the Environment and Heritage (Beeton 2006: 3):



The link with labour is also more complicated than convention allows. In one sense labour simply is another form of capital, whether manifested in brawn, brain, or, usually, a combination of the two. The intellectual aspect may also involve other forms of social capital, such as personal connections or reputation. In another sense, however, labour is distinct (or a very particular form of capital) in that its exercise has a direct connection with monetary reward in the form of wages or salaries. This is the main, but by no means only, source of income for the majority of citizens in employment, including self-employment. It makes practical sense to treat it as a separate variable, even if, as former Treasury Secretary Bernie Fraser has noted, ‘A dollar of income is a dollar of income.’

The more important point is that both capital and labour can be used for productive or non-productive purposes. A major aim of the social contract is to promote the former and discourage the latter. This implies that the essential consideration in taxation and redistribution is not whether the burden falls more on capital or labour (or consumption) but whether the system boosts the productive elements of each — and deters non-productive elements.

1.4.5 Public and private spheres

As with the several forms of capital, the division between public and private spheres (in the form of services, ownership and the like) is more involved than we ordinarily think; and is of the utmost importance for a range of issues in the tax-transfer system, especially those concerned with rebates. Our intuitive sense of the difference is challenged as soon as we consider the operation of actual cases, such as medical expenditure or education. Like nature and nurture or facts and values, public and private spaces tend to merge; and the determination of government allocations in the form of taxation or redistribution becomes accordingly complicated. A private health insurance rebate, for example, is a form of public subsidy, whether or not we consider it (on other grounds) justified. And even if it we quantify the rebate as a fixed percentage of premiums — which is a practical necessity — we cannot so easily quantify the actual division of public and private expenditure.

As argued above, value judgements have to be made, and made explicitly. To take the case of housing: a conception of the common wealth that embraces the ideal of private ownership would entail vastly different taxation rules and categories from one which placed an emphasis on the provision of public housing.

Like that between capital and labour, the distinction between public and private spheres does not, of itself, form the basis of a general tax-transfer principle. Each case will have to be considered on its own merits — in line with an agreed conception of the common wealth.

1.5 Fairness, self-interest and market efficiency

One of Kuznets' major points about the limitations of GDP was that 'economic welfare cannot be adequately measured unless we know the personal distribution of income' (cited in Rowe 2008). As with the concept of 'common wealth', this is both a descriptive and normative term, implying that fair distribution is a defining quality of a healthy economic order. While ultimately grounded in the same moral intuition that underwrites the entire capabilities approach, it is, like health, a natural value. Numerous behavioural studies have demonstrated the ubiquity and functionality of altruism across a range of social and political institutions; and, as noted, the prerequisite of trust for any sustained economic order.

We have already noted that the moral underpinning of an effective market society was well known to classical economists. Adam Smith, for instance, contended that justice is 'the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society … must in a moment crumble to atoms' (Smith 1790: pt II, sec.ii, ch.3). Indeed, Smith wrote *The Wealth of Nations* as a sequel to *The Theory of the Moral Sentiments*; and the more famous economic treatise makes little sense without the ethical foundations of the earlier work. For Smith, the self-interest of economic activity had to be constrained by recognition of others' interests, to strike a mutually beneficial balance. Virtue, sympathy and benevolence were essential for the proper functioning of the public realm. Self-interest that degenerates into selfishness is self-defeating, as recent events more than adequately demonstrate.

Reinforcing the affective basis of fairness is the consideration that 'non-contractual relationships based on trust and reciprocity are fundamental to resolving embedded difficulties in creating workable bargains … capitalism needs fairness and not wild inequality' (Hutton and Schneider 2008: 20). Consumption and production have to be aligned, which requires an equitable distribution of income. This is not to say it requires full equality. Inequalities that arise from differential effort and risk, for instance, are justified, so long as they are proportionate.

The economic dangers of 'wild' inequality are indirectly illustrated by the recent collapse of what was commonly referred to as unprecedented prosperity, especially in the United States. For the mass of middle and lower income people the only way to maintain spending to secure the level of affluence they did — and so keep the economy going — was to accumulate debt: through often hazardous mortgages, credit card debt, home equity loans, car and other personal loans. (Excluding subprime mortgages, Australia was in a comparable position. In 1980 private foreign debt was $8 billion, or six per cent of GDP. By 2007, it was just over $616 billion, or 156 per cent of GDP [Keen 2007: 5].) The only means by which an equivalent level of consumption could have been maintained without debt would have been through a more equitable distribution of after-tax income. This was something fully recognised in the 'welfare capitalism' of Henry Ford (1923: 72). One of its main implications is that taxation is a critical tool in countering any tendency to wild inequality in strictly market returns. Or as Professor Robert Shiller (2006) contends in relation to the impact of technology in contemporary society, 'as the difference in rewards provided by the market to those with and without special skills grows, a progressive tax system to subsidise low-wage jobs becomes more necessary'.

The conclusion to which this leads is that, contrary to a certain received wisdom, there is no conflict between fairness and economic efficiency, but interdependence. The question of wealth distribution is central to the very fitness of market society. As Sen (2009) remarks about the current crisis:

> Since the suffering of the most deprived people in each economy — and in the world — demands the most urgent attention, the role of supportive cooperation between business and government cannot stop only with mutually coordinated expansion of an economy. There is a critical need for

> paying attention to the underdogs of society in planning a response to the current crisis, and in going beyond measures to produce general economic expansion.

We thus see that the Treasurer's commitment to 'promote national prosperity in a way that is consistent with our national values of fairness and equity' is in practice a commitment to a single goal; and that reform of the tax-transfer system has a single, albeit complex, rationale.

1.6 General functions of the tax-transfer system

In the broadest terms, an equitable, efficient, simple, sustainable and consistent tax-transfer system would seek to encourage productive activity and discourage non-productive activity (as defined above). It would provide incentives for increasing the common wealth, and disincentives for reducing it. Thus, for instance, there would be credits (in some appropriate form) for 'positives' like business generation or health and aged care; and greater tax on 'negatives' like the depletion of natural capital or pure speculation. It would be a monetary expression of the values inherent in the Australian social contract.

From this we may derive certain basic principles that should inform specific issues:

- The central place of reciprocity or mutual responsibility.
- The encouragement of economic and social participation.
- The prevention of unproductive speculation.
- The need to reduce, if not eliminate, 'churning'.
- The need to avoid 'poverty traps'.
- The obligation of all to contribute to the common wealth of society.
- That rewards filtered through the tax system should reflect risk, effort and the productive value of the individual's participation, rather than the simple fact of earning income.
- The encouragement of productive capital, including human labour.

1.7 Summary

Reform of the tax-transfer system is most usefully framed within the context of the capabilities approach. This in turn suggests that the values and policy objectives that characterise 'the type of society in which Australians might choose to live' are most effectively determined within the context of social contract theory, specifically in the Rawlsian interpretation of 'justice as fairness'. From this may be drawn certain basic values and principles concerning citizenship, the relation between state and civil society and the nature of productive social and economic activity. The approach both reinforces the emphasis of classical economists on the affective moral basis of market behaviour, and describes the logic of an effective and efficient market economy as grounded in reciprocity and an equitable (though not equal) distribution of income.

Two: Citizenship, mutuality and income maintenance

2.1 Responsibilities and entitlements: the case for a guaranteed minimum income

The reciprocity or mutual responsibility that characterises citizenship has several policy implications, not least for the structure and distribution of income. The right to develop our capabilities, both basic and higher, requires certain public and private goods (with the qualification noted above), including health, shelter, proper nutrition and education. To these we must add financial security. It is an inherent right of citizenship. (Indeed, a proposal along these lines by Anthony Atkinson, was actually called the 'Citizens Participation Income' [Brittan 2001].) And central to the determination of individuals' income is the tax-transfer system. (We deal with the question of dependent children below.) The responsibilities which go with this general right and its associated goods are also largely channelled through the taxation system, in contributions to transfer payments.

Put another way, income support at the lowest level denotes a form of *guaranteed minimum income*.

Several options for a guaranteed minimum income (GMI) have been proposed, with many varieties of economic objective and administrative form. Indeed, the general idea stretches back to the 19th century, canvassed by people as disparate as Charles Fourier, John Stuart Mill, G.D.H. Cole, not to mention the 1982 presidential candidate George McGovern (with a little help from economist James Tobin). Among the main variants are an Unconditional or Universal Basic Income (e.g. Van Parijs 2000; Tomlinson 2001), and some species of Negative Income Tax (e.g. Friedman 1962; Humphreys 2005). Australian proposals along these lines have been made by the Commission of Inquiry into Poverty (1975); advocates of 'social protection income' (Cappo and Cass 1994); and the Earned Income Tax Credit proposal of Dawkins and others (2003). The name itself is not important (we might even term it a 'common welfare payment', so long as 'welfare' is understood as 'common wealth'). The underlying reasoning *is*.

In principle, a commitment to the public provision of universal financial security is acknowledged in the several existing entitlements to income support. In practice, current arrangements are far from satisfactory (though there is much disagreement about how and why). Given the Review's principles of equity, efficiency, simplicity and policy consistency, it is clear that a major focus of reform should be the nature and level of financial security, and the mechanisms by which both are secured.

As recently admitted by leading members of the federal government, it is extremely difficult to live on the Age Pension (and, even more so, it follows, on lower payments such as Newstart). The inadequacy this indicates is obviously a matter of the dollar value of support payments, but more importantly of structural deficiency. It cannot be properly addressed by nominating any particular rise in the amount received, but by considering the relationship between support payments and general income distribution.

In broad terms, a GMI would be an income guaranteed everyone, *conditional* on their willingness to engage in some form of productive participation; or their exclusion from participation by reason of age or infirmity. In the case of 'the waged', it would constitute the tax free threshold. In the case of the 'unwaged', it would come in the form of a regular payment from a designated government agency (at the moment, Centrelink). For both waged and unwaged, there would be additional conditional payments to deal with the costs of dependent children, disability or old age. The guaranteed minimum income would replace all existing benefits, pensions and allowances. (Hence the carers' allowance would no longer be necessary as both carer and the cared for would each receive at least the minimum income each.)

What needs to be examined is the basis on which it is calculated; the conditions applying to its receipt; the means by which it might be financed; and the administrative division of labour among government agencies most appropriate to it.

> ***The purpose of an economy is to meet human needs in such a way that life becomes in some respect richer and better in the process. It is not simply to produce a lot of stuff. Stuff is a means, not an end. Yet current modes of economic measurement focus almost entirely on means.***
>
> ***Jonathan Rowe (2008)***

2.1.1 An adequate income

As with 'equity', there is much debate over what would be an *adequate* minimum income, with a fair degree of subjective judgement inevitable (Paper: 32-4; Australian Government 2008c: 14-16). The 'safety net' provisions of the lowest income support may supply the bare necessities of life. But as the Treasury Secretary notes, 'there is far more to sharing prosperity than simply ensuring that income is redistributed in a way that avoids inequality widening over time beyond some arbitrary level. To our minds, the distributional goals of government must relate to a much broader concept of prosperity, or wellbeing.'

This combines a concern to ensure the essentials of life with the development of higher faculties and freedoms. Recent work by Anglicare members and others provides empirical substance to this approach in the context of living a non-disadvantaged life in 21st century Australia. This was done by identifying the absence of items or experiences which enable one to 'live without shame'; that is, by developing new indicators of disadvantage and social exclusion 'grounded in the actual living standards and experiences of people in poverty' (Saunders et al. 2007: vii). Thus, apart from having a substantial meal at least once a day and a secure home, there should also be the ability, for instance, to buy prescribed medicines and school books and clothes for children (see Anglicare Australia 2009: Appendix Two). This notion of what might be called 'co-operative capitalism' (Hertz 2009) accords with the concerns of classical liberal political economy, if not those of recent neoclassical theory and practice. It also allows greater conceptual and empirical precision in determining policy outcomes, as specifying disadvantage tends to produce a finite enumeration, while devising positive indicators of 'inclusion' — which easily conflates 'needs' with 'wants' and 'desires' — can encourage an open-ended wish-list. This approach also deals as well as possible with the inherent subjectivity of defining 'adequacy'.

The guaranteed minimum income should thus reflect what is involved in 'living without shame' in present-day Australia. As a guide to fundamental income support it is both absolute and relative. It is absolute insofar as it would be decided by reference to a given basket of capabilities; and relative in relation to the standards of the time — *not* in the sense that the Henderson poverty line is relative. While in practice the amount would consist of some proportion of median or average income, a stipulated proportion would not determine the amount. For reasons of both good policy and governance, that amount (and the constituent basket of goods and tax free threshold for the waged) should be decided by a body independent of the agency that administers the relevant tax collections and redistributions.

(In advocating a system of negative income tax Humphreys [2005] has proposed the threshold be set at $30,000, with a flat tax of 30 per cent and all benefits and concessions abolished, along with the Medicare levy. While determination of the effective level would be the responsibility of the independent body, $30,000 is a reasonable figure with which to start the conversation.)

There would be some additional payments; but far fewer than currently exist, since the minimum income would accommodate much of what is covered by established pensions, benefits and allowances. Indeed, with the exceptions to be listed, all these established payments could be abolished. The three groups to which conditional payments would apply are, as at present, dependent children (though see 2.1.3 below), people with disabilities and seniors. All would have an equal but variable right to income supplementation, covering such contingencies as, respectively, educational expenses (other than private fees), respite and other support, and extra medical costs.

2.1.2 Conditions

The basic social contract is that individuals will be helped to develop their capabilities in return for participating in a socially and/or economically productive way. The general ideal is, of course, gainful employment but the broader conception of citizenship contains 'a view of "work" as any form of socially useful participation, contributing substantially to public and private welfare, whether paid or unpaid' (Shaver 1995: 4). This runs alongside recognition that the traditional commitment to 'full employment' may have to be reconsidered, given the changing nature of 'post-industrial' society, the collapse of the 'male-breadwinner' model of household income and changing attitudes to matters like environmental responsibility and consumption.

Independent wealth being enjoyed by very few, it follows we need some mechanism to provide for productive activity outside the mainstream workforce.

This accords with the federal government's general premise (Department of Education, Employment and Workplace Relations 2008: 22):

> In line with community attitudes, the Government believes that everyone who can work should work and that job seekers who receive income support must look for work and participate in employment programs or training to help them find a job.

But the premise should be extended. While having 'a job' may be a desirable and useful goal for a relatively small majority this does not hold for everyone; the total labour force comprises 65.3 per cent of the population (Australian Bureau of Statistic 2009). Nor is paid employment the only way in which individuals can contribute productively to the common wealth or fulfil their part of the social contract. As maintained by numerous advocates on all parts of the political spectrum, from Bertrand Russell (1932) and Keynes (1930) to Friedrich Hayek (1960) and the current leader of the British Conservative Party (Cameron 2006), there is nothing intrinsically worthy about paid employment — for most in the labour force it is simply a necessity — and a great deal that *is* valuable in much unpaid activity. What Van Parijs (2000: 12) terms our 'work fetishism' (which encourages the perverse ideal of 'an overworked, hyperactive society') blinds us to the value of much non-monetised employment. Caring, volunteering, gaining an education or training, engaging in amateur artistic or sporting endeavours are just as productive forms of participation as wage labour. (Indeed, many types of wage-labour — say, those associated with gambling or pornography — may be considered positively harmful to the common wealth.) Furthermore, the distinction between paid and unpaid participation is often completely arbitrary. As one critic of the concept of 'work-life balance' puts it (Orr 2006):

> Yet much of the stuff we fill our lives with magically becomes work if it is being done for money. Hanging out with one's own children is 'life' while being paid to hang out with someone else's is 'work'. Caring for one's own dependent relative is 'life' while looking after someone else's is 'work'.

Clearly it is impossible to live without payment of some kind. Independent wealth being enjoyed by very few, it follows we need some mechanism to provide for productive activity outside the mainstream workforce. In Keynes' view, technological progress was such that a three-hour day in paid work would be sufficient to keep everyone comfortable, with the rest of the time free to engage in what he called 'the art of life itself'.

The existing system already caters for a range of alternative activities to mainstream employment: education and training; various forms of community participation (as through the Jobs Fund organised by not-for-profit bodies), caring, land care initiatives like tree-planting and volunteering in general. There have also been several proposals for a 'Job Guarantee' that would encourage 'a "buffer stock" of fixed (minimum) wage jobs available to anyone willing and able to work. This guaranteed work would be funded by the Commonwealth but organised on the basis of local partnerships between a range of government and non-government organisations' (Cowling et al. 2003: 7). The particular deal or formal contract struck in individual cases would, as now, follow discussions between the individual and a service provider, following guidelines about acceptable participation to be developed by a government-mandated agency (perhaps Centrelink or a member of Job Services Australia).

Those who cannot engage in meaningful participation because of infirmity, age or any other currently recognised condition would still receive the guaranteed income. Those who chose not to participate, while being able to do so, would receive no payment.

2.1.3 Financing the new arrangement

There have been many general suggestions about possible ways of funding a guaranteed minimum income, including the creation of a national mutual fund, universal stock ownership and 'sin taxes'. We confine ourselves here to options directly pertaining to the established tax-transfer system for individuals and businesses. A more detailed discussion of other options would depend on consensus over the general proposal.

As already covered, there would be few additional payments, covering only dependent children, people with disabilities and the aged. As with pensions, benefits and allowances, all tax concessions for individual employees — though not businesses or the self-employed — could be removed altogether. The baby bonus would not be necessary. All direct and indirect public subsidies to private business such as tax rebates for private health insurance could be abolished.

Tax scales would be determined in conjunction with the level of guaranteed income, but would remain broadly progressive, and include provisions for social insurance such as Medicare and mandatory superannuation. There would be an appropriate tax on retirees. Inequitable superannuation concessions, as enumerated in Ingles (2009), would be abolished. The low income tax offset would also be unnecessary. The several constituent elements could be so organised as to make the reform revenue-neutral (though it might well be inquired why revenue neutrality is a good in itself or the existing revenue level ipso facto sound).

One advantage of a guaranteed minimum income is that the relevant unit is the adult individual (cf. Paper: 85). This eliminates the need for income splitting, dependent spouse rebates or any other family benefits except for the maintenance of children. Some have proposed that children themselves should be given a minimum income (or their parents be given it on their behalf); the practical effect would be much the same as conditional supplementary payments. The focus on citizenship avoids the thorny political question of whether children should be 'subsidised' (because, perhaps, their parents had one 'for the country'). Though lacking the vote, children are part of the intergenerational social contract and thus entitled to live without shame.

Another serious issue is the differential tax treatment of individual employees, the self-employed and corporate entities. Within the suggested system, the waged would receive no concessions for 'tax expenditures'. Their minimum income would suffice to cover personal expenses; and any income they received in wages above that level would be taxed. Any legitimate business expenses they incur in their employment should be borne by the appropriate business entity. This would greatly simplify income tax returns for PAYE taxpayers and remove the need in most cases to consult tax agents.

The self-employed and corporate entities, on the other hand, would clearly have to claim tax expenditures (i.e. deductions) much as they do at present. With business expenses separated from employee claims, the system would be more streamlined and consistent than under current arrangements, with a much reduced potential for fraud. In addition, the practice of income averaging for variable incomes could be abolished. (*What* constitutes a legitimate business expense may be open to question. If it is simply expenditure incurred in order to earn money, then [so long as the activity is legal] it might be practicable to follow Professor Joshua Gans of the Melbourne Business School in being entirely non-judgemental,[7] though this would conflict with our general argument about the encouragement of genuinely productive participation.)

> ***We start from the belief that prosperity is indivisible, that growth, to be sustained, has to be shared, and that our global plan for recovery must have at its heart the needs and jobs of hard working families.***
>
> ***G20 communiqué (2 April 2009)***

2.1.4 Administrative arrangements

The functions of deciding on an acceptable level of minimum income (and the constituent basket of goods) and its administration should be distinct. That is to say, there should be three main agencies. Some equivalent of the Fair Pay Commission would decide on the basket of goods or capabilities that would

[7] 'People want bigger houses, cars with more features. Is my job as an economist to say, "No, you can't have that?" Or is my job to work out how to efficiently provide resources? In my role as an economist I don't want to be a parent. I am reluctant to tell people what they can't have.' (Cited in Matchett 2009.)

determine an adequate minimum income; Centrelink or its equivalent would organise payments for the unwaged; and the Tax Office would oversee the 'administration of things'. (A competently administered personnel system in individual organisations would remove the need for most PAYE taxpayers to file tax returns at all.)

We thus conclude that the tax-transfer system should be reformed around the concept of a GMI, supplemented by appropriate conditional entitlements and tax collection on all income above it. The underlying principle is compatible with a wide range of ideological persuasions (as well as the established income support system); and on that ground alone should be recommended.

2.2 Objections

Objections to the general proposal for a guaranteed minimum income fall into three broad categories. The most obvious is that it will encourage free riders or 'bludgers'; it has the potential to violate the principle of reciprocity. Apart from the fact that this ignores the existence of provisions to reward certain free riders in the current system — those living off investment income or inherited wealth, for example — it rests on a premise that is empirically suspect: that a significant percentage of people would *want* to 'spend their mornings bickering with their partner, surf off Malibu in the afternoon, and smoke pot all night' (Van Parijs 2000:16).

The human animal is naturally *homo faber* as much as *homo sapiens*: a 'doer'. Work in the broadest sense is instinctive. Idleness in the pejorative sense is in fact very rare and usually associated with a pathological condition like clinical depression or addiction. The very size of the voluntary sector attests to the significant social contribution people already make for no formal remuneration. The crucial issue is not idleness versus participation, but the quality of participation. Or as David Cameron (2006) has expressed it: 'Our goal is clear: to move beyond a belief in the Protestant work ethic alone to a modern vision of ethical work.'

This is reinforced by two other, practical considerations. A GMI would allow people to 'live without shame'. It would not provide the sort of affluence to which a majority of people aspire. The overwhelming majority of those can work would want to do so, for social as well as financial reasons. And, to ensure that no bludger might be tempted to live a frugal life, it *would* be possible to formalise individuals' reciprocity along the lines of the established mutual obligation model.

A second objection is that such a scheme would simply push up costs (or, in effect, raise the level of the dole, with inflationary consequences). Clearly, this cannot be meaningfully discussed without some idea of the level of guaranteed income, the rates of progressive taxation for earned income and the impact of abolishing tax expenditures and other subsidies. Since, however, proponents of both basic income and negative taxation have been at pains to demonstrate at the very least revenue-neutrality — Humphreys (2005: 9) claims his proposal would lead to '500,000 new jobs, less poverty, higher growth rates and a simpler, fairer tax/welfare system' — the principal rebuttal to the charge is that a guaranteed minimum income at the most involves a *rearrangement* of wealth, within a simpler, fairer framework.

The third misgiving is that the scheme is entirely impracticable, if not Utopian. The evidence suggests the opposite. The underlying principles of rights and reciprocity are already accepted in the case of our various types of income support. The proposed scheme would simplify as well as expand the reach of the principles' application. Not only would it be more efficient, it would remove the stigma associated with many of the established targeted payments — another important step towards effective social inclusion.

More tellingly, some form of GMI (though generally with conditions) has already been introduced across Europe, Latin and North America (notably Canada), some of it explicitly based on the Basic Income philosophy (which proposes unconditional payment). The 1989 Alaska Permanent Fund established a small annual payment for everyone of every age who had been living in the state for at least one year.

2.3 Social insurance

As argued in our submission on retirement income (Anglicare Australia 2009), the most obvious way to provide for income beyond the Age Pension is through a system of national social insurance — in line with most OECD countries. This has the defining features of being based, by definition, on the insurance principle; serving social as distinct from, but in addition to, individual objectives; and being government-sponsored with greater or lesser compulsion and statutory obligations. Australia's established 'three pillar' retirement income arrangements constitute, in effect, a quasi-social insurance system. It would not, in principle, require a significant policy shift to enable the current system to meet the insurance principle. The main change would involve the manner in which the Superannuation Guarantee is incorporated into a social insurance contribution (predominantly with Medicare); and its component of retirement income turned into a mandatory defined benefit income stream.

This is readily married with the proposed guaranteed minimum income, though each can be justified independently of the other.

2.4 A comment on equity

In a speech to the 2009 ACOSS national conference, the Treasury Secretary posed the 'mildly provocative' question, 'How much inequity should we allow?'. While more sympathetic to arguments for distributive rather than procedural justice, he retains the orthodox economic point that 'the degree of income inequity we should allow should be that sufficient to maintain incentives to earning income' (Henry 2009).

The simplest response — other than invoking Rawls' principles of 'justice as fairness' — is to say that the current basis of differentials should continue, with the proviso that there be no public subsidy of the purely private sector or of unearned inequalities. To return to Professor Gans, let us accept people's wants and willingness to pay for them; but let us not give them public funds for private indulgences (such as corporate sponsorship).

2.5 Summary

In many respects, the proposal for a guaranteed minimum income involves nothing more or less than a simplification and rearrangement of the current tax-transfer system. The detail of its particular form is less important than the principles involved.

Its advantages are many. It is simple. Having effectively universal application, it would not need to distinguish between pensions and allowances. It does not 'pick winners' in the sense of making a judgement about the value of particular types of activity as legitimate 'work' (see Paper:84).[8] Many of the disincentives that currently make 'welfare to work' financially unattractive would be removed. And its corollary is the removal of a whole raft of benefits, tax concessions and expenditures that apply in the current regime. Perhaps most significantly, it decouples a living income from the vicissitudes of production.

The skeleton of any such system would, however, remain constant, along the following model:

Income

Basic (conditional):	the guaranteed minimum income.
Supplementary (conditional):	payments for dependent children, people with disabilities and seniors.
Waged:	Any earned income.
Unwaged:	Any unearned income.

Tax paid

A progressive scale on income beyond the guaranteed minimum income.
Graduated social insurance (e.g. Medicare).
Graduated tax on unearned income.
GST.

[8] In the established system, this is done in the case of government jobs and through what are regarded as legitimate concessions. This also applies to 'market' price, insofar as offsets and concessions are allowed. Given this is a market system, it is not government's job to interfere directly in private sector remuneration (other than through minimum wages and conditions). But it does so indirectly, by supervising tax concessions.

Three: Specific recommendations

Our response to the Panel's several consultation questions is largely contained in the above general argument. The following points are supplementary (headings being taken from the Consultation paper).

Challenges and opportunities for reform

What is at issue in this debate 'is not just a series of technical questions surrounding which levers to pull, when to pull them, how hard and for how long, but more fundamental issues associated with social choices which revolve around the kind of society in which we wish to live' (Saunders 1995: 16). The principal function of the tax-transfer system should be to encourage productive participation and discourage unproductive, in the context of our arguments about citizenship and the common wealth. Growth as measured by an increase in GDP is a crucial factor in determining the development of the common wealth, but not the sole or sufficient one. The relative rates of private and public sector activity should be judged by the purpose they serve rather than ownership.

There should be a conditional guaranteed income for all willing and able, or unable, to participate as citizens in a socially and/economically useful activity. Its level should be equivalent to the tax-free threshold for waged earners; and it should be supplemented by a limited number of conditional payments to cover the cost of children, people with disabilities and seniors. The corollary of a guaranteed income would be the abolition of all tax expenditures, public subsidies to private sector enterprises and inequitable concessions to higher income earners.

The revenue mix

The proposed system makes a clear distinction between business (including the self-employed) and employee taxes, corresponding to concessional treatment for expenditures. The pertinent distinction with regard to both capital and labour is whether or not each is productive.

Consultation questions

Q3.2 Does Australia's tax system penalise (or favour) the returns to savings relative to other activities and should this lead to changes in the structure of taxes and means tests?

Means testing should be applied to income at the established tax rate for total income (including superannuation).

Q3.5 Could greater application of user charges, rather than general taxes, in the funding of government services or infrastructure bring social, environmental or economic benefits?

Insofar as citizenship requires the provision of government services (on the basis of rights or needs rather than income) these are to be considered public goods for which the user-pays principle should not apply.

Personal tax and transfers

These points are covered in Section Two, with the following additional comments.

Consultation questions

Q4.5 Should people in different circumstances be taxed differently (for example, by age, occupation, location), and what might be the implications of such arrangements? Are tax offsets the best way to achieve differential taxation?

There is a case for making supplementary payments reflect relative disadvantage /advantage (for example, in providing transport costs to secure medical attention in isolated communities).

Q4.8 What priority should be given to the different objectives associated with family assistance, such as poverty alleviation, recognising the social value of child rearing, facilitating workforce participation of parents, and early childhood education? Would it be better to provide less family assistance to higher income earners?

These different objectives could be accommodated by the provision of a guaranteed minimum income and its associated conditionality. It is a simple fact of a liberal market system that those with higher income have more options than those on lower income. A progressive taxation system is designed to ensure differential contributions to general government revenue. Beyond that, means testing becomes administratively complex and arbitrary.

Q4.9 What are the key factors that should affect rates of transfer payments? What should be the relative importance of duration on income support, costs of work and job search, costs of children, value of home production and the level of the federal minimum wage?

Under the proposed reform, these issues would largely be decided in the course of discussions between the individual and government about the requirements of conditionality for receiving the guaranteed income and any supplementary payments. The federal minimum wage would be higher than the guaranteed minimum income.

Q4.10 Should transfer payments have a common benchmark? If so, should it be a proportion of a wage measure, and if so, which one? Or is there a better benchmark? Should there be a common indexation arrangement?

As noted above, ‘while in practice the amount would consist of some proportion of median or average income, a stipulated proportion would not determine the amount. For reasons of both good policy and governance, that amount (and the constituent basket of goods and tax free threshold for the waged) should be decided by a body independent of the agency that administers the relevant tax collections and redistributions.’

The retirement income system
We have covered this in our earlier submission to the Review (Anglicare Australia 2009).

Not-for-profit organisations
As argued in our submission to, and appearance before, the 2008 Senate Inquiry into the disclosure regimes for not-for-profit organisations (Anglicare Australia 2008b), there are three main matters of principle:

- In the case of charities, the operative consideration should be function rather than status, motive or constitution.
- There should be an Australian national regulator of not-for-profits, overseeing among other things charitable status.
- There should be total transparency in all accounting and other reporting. This includes the reporting of commercial activities the revenue of which is used for designated charitable purposes.

Consultation question
Q7.2 Given the impact of the tax concessions for NFP organisations on competition, compliance costs and equity, would alternative arrangements (such as the provision of direct funding) be a more efficient way of assisting these organisations to further their philanthropic and community-based activities?

The provision of increased direct funding would greatly simplify compliance and other administrative costs.

Tax and transfer impacts on housing
Access to shelter is one of the fundamental rights of citizenship, providing for a basic capability. This was recognised in the 1948 Universal Declaration on Human Rights and the 1962 Convention on Economic, Social and Cultural Rights. As we have noted elsewhere (Anglicare Australia 2008a: ch. 4):

> What was once ‘home’ has become ‘real estate’. Problems of affordability naturally flow from this, as housing’s role as an asset for the better off displaces — and undermines — its role as shelter for the worse off. Or to

> put it another way: for many people, housing as a necessary commodity has become housing *primarily* or *solely* as a commodity.
>
> This has been explicitly encouraged by successive governments, notably by negative gearing and manipulation of the capital gains tax: in 1986, by excluding the family home, thus favouring owner-occupiers; and in 1999, by halving the capital gains tax rate (from a tax on real capital gain to a 50 per discount on nominal gain), thus favouring investors.

The current market (including tax concessions) introduces distortions into the capacity of all citizens to secure this fundamental right. The Review should consider removing some of the more obvious distorting factors. We recommend:

- The abolition of negative gearing.
- The abolition of concessional treatment for capital gains related to the family home above a certain point set by the ATO.

Fuel, roads and transport
On general grounds of equity, we maintain that there should be no discretion in favour of one group over another in the effectively private use of resources, through the use of tax expenditures. Vehicles that are necessary as a legitimate business cost should be owned, leased and used only by the business entity.

Conclusion

The aim of this submission has been twofold:

- To argue that reform of Australia’s tax-transfer system should be morally informed, in line with the capabilities approach, itself reflecting the broader concerns of classical economists such as Adam Smith.

- To argue for consideration of a general perspective and principles of practical reform that would satisfy the main criteria of fairness, simplicity and transparency.

The submission is not presented as a blueprint but as a means of opening out debate and canvassing new (though actually very old) ideas. This is in line with the overall reconsideration of public policy in general and economic policy in particular that has followed the global financial and economic breakdown. Anglicare Australia looks forward to continuing the conversation.

References

Anglicare Australia (2008a) *Creative Tension: State of the Family 2008*, Canberra, at www.anglicare.asn.au/documents/StateoftheFamily2008_FinalCopy.pdf

_____ (2008b) *A submission to the Senate Standing Committee on Economics Inquiry into the disclosure regimes for charities and not-for-profit organisations*, August, at www.anglicare.asn.au/documents/AASubmissionondisclosureregimesforcharitiesandNFPs_Aug08.pdf.

_____ (2008c) *Submission to the Pension Review*, September, at www.anglicare.asn.au/documents/Anglicare%20Aus%20-%20Pension%20review.doc

_____ (2008d) *A submission to the* Australia's Future Tax System *Review*, October, at www.anglicare.asn.au/documents/Anglicare%20Aus%20-%20Australia's%20future%20tax%20system.doc

_____ (2009) *Reform of the Australian Retirement Income System*, at www.anglicare.asn.au/documents/Retirementincomereviewsubmissionfinal.pdf

Australian Bureau of Statistics (2008) *Measures of Australia's Progress*, at www.abs.gov.au/AUSSTATS/abs@.nsf/mf/1383.0.55.001

_____ (2009) *Labour Force, Australia*, February, Cat. No. 6202.0, at www.abs.gov.au/AUSSTATS/abs@.nsf/mf/6202.0?opendocument?utm_id=LN

Akerlof, G.A. and Shller, R.J. (2009) *Animal Spirits: How human psychology drives the economy, and why it matters for global capitalism*, Princeton University Press, New Jersey.

Australian Government, The Treasury (2008a), *Australia's future tax system: Architecture of Australia's system*, Commonwealth of Australia, Canberra, August.

_____ (2008b), *Australia's future tax system: Consultation paper*, Commonwealth of Australia, Canberra, December.

_____ (2008c) *Australia's future tax system: Retirement income consultation paper*, Commonwealth of Australia, Canberra, December.

Barber, B. (2009) 'A revolution in spirit', *The Nation*, 9 February.

Beeton, R.J.S. (2006) 'Society's Forms of Capital: A framework for renewing our thinking', Paper prepared for the 2006 Australian State of the Environment Committee, Department of the Environment and Heritage, Canberra, at www.environment.gov.au/soe/2006/publications/emerging/capital/index.html

Brotherhood of St Laurence (2008) *Towards a progressive tax system,* Submission to the review of Australia's future tax system, October.

Butler, S.M. (2009) 'Mutual obligation and the American social contract', *Heritage Lecture* # 1108, 29 January, at www.heritage.org/Research/SocialSecurity/hl1107.cfm

Camerer, C. (2005) 'Behavioral Economics', Paper prepared for the World Congress of the Econometric Society, London, at www.hss.caltech.edu/~camerer/worldcongress05v18.doc

Cameron, D. (2008), Speech to Google Zeitgeist Europe, at www.davidcameronmp.com

Cappo, D. and Cass, B. (1994) 'Reworking citizenship and social protection: Australia in the 1990s', Paper presented to the World Congress of the International Concil on Social Work, 3-7 July, Tampere, Finland.

Centre for Policy Development (2006) *Summary* of McAuley, I., Menadue, J., Carney, N. and Lyons, M. eds, *Reclaiming Our Common Wealth: Politics for a fair and sustainable future,* Centre for Policy Development Common Sense Paper No. 1, June.

Council of Australian Governments (2006) *Human Capital: Report of the COAG National Reform Initiative*, Canberra, February, at www.coag.gov.au/coag_meeting_outcomes/2006-02-10/docs/human_capital_reform_report_COAG_100206.rtf.

Cowling, S., Mitchell W. and Watts, M. (2003) 'The right to work versus the right to income', Centre of Full Employment and Equity Working Paper No. 03-08.

Dawkins, P., Duncan A. and Freebairn, N. (2003) 'Modifying income support in the Australian system', Paper to the *Pursuing Opportunity and Prosperity Conference*, University of Melbourne, 13-14 November.

Deakin University (2009) Australian Centre on Quality of life, at http://acqol.deakin.edu.au/index_wellbeing/index.htm

Department of Education, Employment and Workplace Relations (2008) *The Future of Employment Services in Australia: A discussion paper*, Canberra.

Edwards, M. (2004) *Civil Society*, Polity Press, Cambridge.

Ford, H. with Crowther, S. (1923) *My Life and Work*, Angus & Robertson, Sydney.

Friedman, M. (1962) *Capitalism and Freedom*, University of Chicago Press, Chicago.

Furedi, F. (2008) 'Dare to be moral' *spiked,* 12 September, at www.spiked-online.com/index.php?/site/article/5713/

Gillard, J. (2008) Speech to ACOSS National Conference, 10 April, Melbourne.

Hamilton, C. with Sadler, H. (1997) *The Genuine Progress Indicator: A new index of changes in well-being in Australia,* Australia Institute Discussion Paper No. 14.

Hancock, K. (1930) *Australia,* Ernest Benn, London.

Hastings, M. (2008) 'Many of these bankers are horrible people, but we will still need them', *The Guardian,* 15 September.

Hayek, F. (1960) *The Constitution of Liberty*, University of Chicago Press, Chicago.

Hayes, A., Gray, M. and Edwards, R. (2008) *Social Inclusion: origins, concepts and key themes*, Paper prepared for the Social Inclusion Unit, Department of the Prime Minister and Cabinet, October.

Heilbroner, R.L. (1967) *The Worldly Philosophers* (Third Edition), Simon and Schuster, New York.

Henry, K. (2007) 'Addressing extreme disadvantage through investment in capability development', Closing keynote address to the Australian Institute of Health and Welfare conference, *Australia's Welfare 2007,* Canberra, 6 December, at www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1327

_____ (2009) 'How much inequity should we allow?', Speech to the ACOSS National Conference, 3 April, at http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/speeches/05.htm

Hertz, N. (2009) 'Goodbye Gucci. It's the age of co-op capitalism', *The Times*, 25 February.

Humphreys, J. (2005) 'Reform 30/30: Rebuilding Australia's tax and welfare systems', Centre for Independent Studies, Policy Monograph 70.

Hutton, W. and Schneider, P. (2008) *The Failure Of Market Failure: towards a 21st century Keynesianism*, National Endowment for Science, Technology and the Arts, London.

Ingles, D. (2009), 'The great superannuation tax concession rort', Australia Institute Research Paper No. 61.

Kaletsky, A. (2009) 'Economists are the forgotten guilty men', *The Times,* 5 February.

Keen, S. (2001) *Debunking Economics: The Naked Emperor of the Social Sciences*, Pluto Press, Sydney.

_____ (2007) 'Deeper in debt: Australia's addiction to borrowed money', Centre for Policy Development, Occasional Papers No.3.

Kelly, P. (1994) *The End of Certainty: Power, politics and business in Australia,* Allen & Unwin, St Leonards.

Keynes, J.M. (1930) 'Economic possibilities for our grandchildren', at www.econ.yale.edu/smith/econ116a/keynes1.pdf

Kunstler, J.H. (2005) 'End of the Binge', *American Conservative*, 12 September.

Kuznets, S. [Letter from the Acting Secretary of Commerce] (1934) *National Income, 1929-32*, 4 January, at http://library.bea.gov/cdm4/document.php?CISOROOT=/SOD&CISOPTR=888

McAuley (2005) 'Updating the Australian Settlement', *Insight*, Centre for Policy Development, 2 June, at http://cpd.org.au/article/updating-australian-settlement

Maddox, G. (1998) 'The Australian Settlement and Australian political thought', in P. Smyth and B. Cass eds *Contesting the Australian Way*, Cambridge University Press, Melbourne.

Matchett, S. (2009) 'Dismal science of economics faces dilemma', *The Australian*, 25 March.

Nozick, R. (1975) *Anarchy, State and Utopia*, Blackwell, Oxford.

Norton, A. (2002) ‘Towards a new Australian Setllement? The progress of Australian liberalism’, in J.R. Nethercote, ed. *Liberalism and the Australian Federation*, Federation Press, Sydney.

Nussbaum, M.C. (2000) *Women and Human Development: the capabilities approach*, Cambridge University Press, New York.

_____ (2002) ‘Capabilities, disability and social justice’, *disparity*, Summer.

_____ (2006) ‘The Moral Status of Animals’, *The Chronicle of Higher Education*, 3 February.

Nussbaum, M.C. and Sen, A. eds (1993) *The Quality of Life*, Oxford University Press, Oxford.

Ormerod, P. (1994) *The Death of Economics*, Faber and Faber, London and Boston.

Orr, D. (2006) ‘Why I've come to loathe all this cheap talk about finding a “work-life” balance’, *The Independent*, 24 May.

Productivity Commission (2009) ‘Contribution of the Not for Profit Sector Commissioned study: Terms of Reference’, at www.pc.gov.au/projects/study/not-for-profit/terms-of-reference

Rawls, J. (1971) *A Theory of Justice*, Oxford University Press, Oxford.

Roberts, A. (2007) ‘We depend on GDP, but it has its flaws’, *The Chronicle Herald*, 17 June.

Rowe, D. (2008) ‘Our phony economy’, *Harper’s*, June.

Rudd, K. (2007) ‘Faith in politics’, *The Monthly*, October 2006.

Russell, B. (1932) *In Praise of Idleness*, Allen & Unwin, London.

Saunders, P. (1995) ‘Conditionality and transition as issues in the Basic Income debate’, in P. Saunders and S. Shaver, ‘Two papers on citizenship and Basic Income’, SPRC Discussion Paper No. 55.

Saunders, P. (2005), ‘Foreword’ in J. Humphreys, ‘Reform 30/30: Rebuilding Australia’s tax and welfare systems’, Centre for Independent Studies, Policy Monograph 70.

Saunders, P., Naidoo, Y. and Griffiths, M. (2007) *Towards New Indicators of Disadvantage: Deprivation and Social Exclusion in Australia*, Sydney, Social Policy Research Centre, University of NSW.

Scruton (2002) *The West and the Rest*, Continuum, London and New York.

Sen, A. (1999) *Development as Freedom,* Oxford University Press, London.

_____ (2009) 'Capitalism beyond the crisis', *New York Review of Books*, Vol. 56, No. 5, 26 March.

Shaver, S. (1995) Wage earners or citizens: participation and welfare', in P. Saunders and S. Shaver, 'Two papers on citizenship and Basic Income', SPRC Discussion Paper No. 55.

Shiller, R. (2006) 'Human redundancy has barely begun', *Australian Financial Review*, 19 March.

Skidelsky, R. (2009) 'Where do we go from here?', *Prospect*, No. 154, January.

Smith, A. (1790) *The Theory of Moral Sentiments*, Beaty and Jackson, Dublin.

Smyth, P. and Cass, B. (1998) eds *Contesting the Australian Way*, Cambridge University Press, Melbourne.

Stephens, U. (2007) 'Letter from "social inclusion" Senator', *Eureka Street*, 30 November, at www.eurekastreet.com.au/article.aspx?aeid=3898

Stokes, G. (2004) 'The "Australian Settlement" and Australian political thought', *Australian Journal of Political Science*, Vol. 39, No. 1, March.

Swan, W. (2009) 'Tax reform for prosperity, productivity and fairness', Address to the Nation Tax Symposium, National Press Club, Canberra, 25 February.

Tomlinson, J. (2001) *Income Insecurity: The Basic Income Alternative*, Queensland University of Technology e-book, Carseldine.

United Nations Development Project (n.d.) *Human Development Reports*, at http://hdr.undp.org/en/

Van Parijs, P. (2000) 'A basic income for all', *Boston Review,* October–November.

World Bank (2005) *Where is the Wealth of Nations? Measuring Capital for the 21st Century*, World Bank, Washington.

Appendix: Rawls' argument in the Australian context

We live in a market society in which there will inevitably be an unequal distribution of talents, interests, opportunities, risks, public gods, income and much else besides (in short, different capabilities). Because of people's often radically different circumstances and income levels, they will be taxed differently, and national wealth redistributed through the transfer system. How should we work out the rules?

This is where Rawls' thought experiment comes in. Imagine we know everything there is to know about society that is relevant to the tax-transfer system. We know, for instance, about the economic structure and its place in the international order; about the fact that women bear children and, even where they wish to work, have to take certain time at home to raise their children; that some jobs are far more dangerous than others; that some are more productive than others; that there is a significant differential in the value they are accorded, both socially and financially; that a certain proportion of the population has physical and/or intellectual disabilities; that some are generally healthy, others not; that some are born to great wealth, others into dire poverty, with the majority in between; that some are Christian, others Muslim, Jewish or of any other religious persuasion or none; that some are intelligent, others not so; that most Indigenous Australians live in relatively isolated communities without access to mainstream facilities; and so on.

We know all this. But there is one thing we do not know: where we, as individuals, fit into the overall scheme of things. We do not know what our sex, age or race is; what job, if any, we have; where we live; whether or not we have children; what our physical and intellectual condition is; and so forth. Rawls refers to this as the 'veil of ignorance'.

The task now is to determine what rules of taxation and income transfer we would consider just — that is, consistent with the Treasurer's 'national values of fairness and equity' — such that, when the veil of ignorance is lifted and we discover what position in society we actually occupy, we would be satisfied with the result *no matter what our particular position is.*

The order in question would, obviously, involve both costs and benefits. And there would be countless differences of opinion about what they should be. But the point of the thought experiment is not to come up with some ideal system, but a general idea of the kind of society which we would be willing to accept if we didn't in advance know our own place in it. Most importantly, it is to suggest an intellectual framework within which to articulate those differences of opinion.

To return to our own case, Anglicare Australia may view the world from a particular Christian perspective, but in deliberating on taxation and transfer rules in the thought experiment we would have to take account of all other perspectives. That, more or less, is what the Prime Minister means when he talks about Australia as a ‘fully contestable secular polity’.

It goes without saying that this greatly oversimplifies the arguments in question and does not deal with the myriad objections, by sympathetic and unsympathetic commentators alike, that have been lodged against the Rawlsian case in particular, and social contract argument in general. All we need establish is that if one accepts the capabilities approach and the moral intuition underwriting it, then one is bound to accept some form of social contract theory that in turn will underwrite certain principles of fairness and equity for discussion of tax-transfer reform. This is to put a case that, above all, opens up a discussion, in which, as noted, we make our own values and assumptions explicit, while acknowledging, in our own veil of ignorance, the equally plausible contributions of those who disagree with us.