

Submission to the
Department of Social Services
Review of Australia's Welfare System

Pirate Party Australia

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Introduction

Pirate Party Australia appreciates the opportunity to submit a response on the issue of welfare reform. The size and scope of welfare in Australia and its essential role in Australian society make it a crucial issue, and one where the correct decisions can play a real role in the support and development of Australian society.

The Pirate Party's submission focuses on the opportunity a welfare review offers to create transparency and fairness through improved integration of the tax and welfare systems. Pirate Party Australia concurs with the interim report's analysis of existing failings and supports recommendations of the interim report where these meet the objective of reduced bureaucracy. However, we believe deeper changes than those discussed in the interim report should be considered.

About Pirate Party Australia

Pirate Party Australia is a political party based around the core tenets of freedom of information and culture, civil and digital liberties, privacy and anonymity. It formed in 2008, and is part of an international movement which began in 2006. Pirate Parties have been elected to all levels of government worldwide. The Pirate Party has been a registered political party under the *Commonwealth Electoral Act* since January 2013.

1 Opening remarks

Pirate Party Australia agrees with the central issue identified within the interim report — that the system has become rife with 'complexities, inconsistencies and disincentives for some people to work.' The Party concurs with the observation that long-term reliance on income support creates significant health and social side-effects and agree that the system suffers from having been subjected to continual piecemeal change over a long period of time.

The interim report identifies a need to better align the welfare system with the tax system, but treats this as a relative side-issue. However,

the Pirate Party regards such an alignment of tax and welfare systems as the crucial change which must be made to correct all the underlying issues with the current mechanisms. An extensive, whole-of-system overhaul offers a rare chance to bring such an alignment about.

The Pirate Party recommends consideration be given to the various ways in which tax and welfare systems can be harmonised. One method through which to do this is by implementing a negative income tax. A negative income tax sets a threshold of income and a tax level: income above the threshold is subject to tax deduction, but income below is subject to tax credit at an equivalent tax rate. This system thus functions as both a tax and welfare system simultaneously. It automatically 'tops up' the income of low-paid individuals, and provides a basic income for those without other income sources. One possible implementation for such a scheme is the Pirate Party's own policy.¹

However, many possible implementations exist which could bring this about. Merging the tax and welfare systems addresses three crucial issues:

- It allows for a reduction in the existing bureaucracy, since two highly complex systems are merged into one. A merger will ensure that no taxpayer receives benefits and no beneficiary pays income tax, removing income 'churn' along with the bulk of systemic complexity and inconsistency.
- The incentive to work is sharply improved. A simple tax rate, likely around 35-37% is applied at all scales, and the high effective marginal tax rates associated with current systems are effectively removed.
- The cost of hiring falls sharply. A side-effect of negative income tax is a sharp reduction in income tax overall, which reduces the fixed cost employers face in hiring labour. Revenue may be made up through less harmful taxes. The job creation which will result from lowered income tax, in conjunction with lower effective marginal tax rates, provides an effective way to address the issue of long-term unemployment.

¹Pirate Party Australia, *Tax and Welfare* (30 July 2014) <http://pirateparty.org.au/wiki/Policies/Tax_and_Welfare>.

2 Pillar One: Simpler and sustainable income support system

Pirate Party Australia agrees that reducing the number of primary payments is necessary. However, a 'modular' payment structure based on a fundamental minimal income which is topped up in cases of special need ensures the simplest administrative 'back-end' since all replication of basic technological and administrative functions among separate systems is removed. While the reductions to working payments, disability payments, child payments and age pensions proposed in the interim report would be an improvement on the current expansive system, the opportunity exists to streamline systems further still.

A basic income delivered through the tax system with modular 'top-ups' for pensioners, carers and parents would address the issue of divergence in payment rates which the interim report identifies. The Pirate Party concurs with the interim report's view that all payments, with the exception of rent assistance, should be linked to CPI. This reflects the fact that welfare payments are not work payments, and will also prevent further divergence between payments such as the pension (which links to earnings) and Newstart (which links to the CPI).

Although preventing further divergence is urgent, closing the existing divergence is likely to be infeasible. In setting the basic level of payments, the Pirate Party suggests a basic income in approximate proportion to the existing level of Newstart, with top-ups for those currently receiving age and other pensions. Base allowances should not be cut, although means testing will be inherent to the structure of the negative income tax, and payments may reduce different rates (and more smoothly) than is the case at present.

A per-child payment can be added to the basic income and 'tapered' through a higher tax rate until the payment is nullified. While this slightly increases the effective marginal tax rate for parents, it provides the simplest way of supplying means-tested child support.

Youth allowance should be used to 'bridge the gap' where a person under 18 is independent. However, full basic income should not be provided until adulthood is reached and the recipient has completed school. To do otherwise risks creating an incentive to leave school before completion.

The Pirate Party concurs with the observations of the interim report

on rent assistance. Rent is a large variable among income recipients and significant driver of poverty,² and assistance needs to be made more flexible to recognise this. Adapting rent assistance is thus a better alternative to large rises in the base allowance. As an interim measure, rent assistance should be set to track with the rental price component of the CPI rather than the full CPI itself. In the long-run, the payment may need to be adjusted at its upper end to address housing poverty in urban areas.

3 Pillar Two: Strengthening individual and family capacity

Pirate Party Australia does not concur with the interim report's recommendations on 'mutual obligation.' Pushing job seekers in front of each other does not reduce the overall level of unemployment, and the evidence for the effectiveness of such measures is dubious.³ The Pirate Party believes enhancing 'mutual obligation' will work against the central goal of the interim report, which is the reduction in complexity and bureaucracy.

Pirate Party Australia also opposes the push towards greater income management. Denying access to certain goods is unlikely to be effective in any society where items can be readily obtained through trade and black markets. Income management systems will add bureaucracy and complexity without an offsetting benefit.

The Pirate Party believes corrections should be made to the current systemic bias against families. Under the existing system, taxes are levied against the individual, while payments are reduced for households. This creates disincentives for shared living arrangements. Under an integrated tax and welfare system, payments and taxes will both target individuals. A merged system will thus offer efficiencies and incentives for recipients to share accommodation and costs. This will reduce social isolation and improve the efficiency of land and housing accommodation in urban areas.

With regard to education and training, the Pirate Party does not support

²Australian Council of Social Service, 'Poverty Report' (Report, October 2011) 5 <http://acoss.org.au/images/uploads/ACOSS_Poverty_October_2011.pdf>.

³Pamela Kinneer, 'Mutual Obligation: Ethical and social implications' (Discussion Paper No 32, The Australia Institute, August 2000) 23 <http://www.tai.org.au/documents/dp_fulltext/DP32.pdf>.

any measures which oblige young people to complete year 12. This risks trapping uninterested students in school, with resulting disruption to other, more engaged students. School funding should be made more flexible, with a 'voucher system' enacted. Students wishing to leave after year 10 and engage in vocational study should receive vouchers as a substitute for traditional school funding. This will ensure funding follows demand and provide maximum flexibility to students.

4 Pillar Three: Engaging with employers

As earlier noted, reduced taxes on income are the best hope for stronger job creation. A basic income arrangement will enable workforce entry by providing automatic support for apprentices and other learners, and reduce the cost of hiring for employers.

Pirate Party Australia largely concurs with the interim report observations on employer engagement, notably with regard to the importance of encouraging businesses and civil society organisations. Further research is warranted to seek employer feedback on the potential and the best options for business covenants.

5 Pillar Four: Building community capacity

Pirate Party Australia agrees with and would support most of the proposals made in the interim report, but notes that a basic income offers several advantages over traditional welfare in the sphere of social outcomes. Automatic access to a basic income where no other income is available will encourage entrepreneurialism and risk-taking and should fuel in the formation of micro-businesses. This would meet the objective of the interim report and create a more dynamic and vibrant business structure across communities.

Volunteerism is too often overlooked given the crucial role it may play as a pathway to employment and a means to develop skills and reduce social isolation. A small additional top-up levy could be provided in addition to the basic income for those who engage in significant volunteerism, and would help to offset transport and other associated costs. This should not be in the form of payment-per-hour, but rather

a single flat allowance to individuals who engage in a number of hours of volunteerism per week.

Participation in this scheme should be voluntary and engaged in by employers at their choice. Submitting data on hours worked should be minimally burdensome in administrative terms, but no compulsion should be applied to any organisation or individual to either apply for or accept a volunteers levy.

Pirate Party Australia believes it is essential to create secure online mechanisms to allow citizens to easily review their financial relationship with government and conduct digital tax transactions. This will support the goal of simplified and citizen-focused tax and welfare systems. Provision of proper digital facilities at public 'information hubs' including libraries will facilitate access by the disadvantaged to such systems and reduce the 'dead-weight' costs of tax payment through service providers.

The Pirate Party appreciates the opportunity to contribute on this crucial issue and hopes that the momentum for reform can be realised for the benefit of Australia's economy and society.