

# Unscrambling the Welfare Mess

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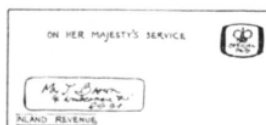
**P**ROVIDING help for its needy members is an accepted function of a civilised society. Indeed, any community that lacked the compassion to provide for those individuals unable to provide for themselves would be without the basic humanity that gives rise to the concept and the term "community".

It was this principle that originally gave birth to our welfare state, an institution that is fast becoming recognised as unsustainable in a time of ever-increasing government expenditure, growing unemployment and seemingly unconquerable inflation. Shall we then be able to maintain our support of the poor or are we destined, on the day that government budgets finally *have* to be brought into balance, to become a "society" in which only the fit survive?

A new and characteristically well-researched paper\* by Colin Clark indicates a way in which we might improve the assistance we give to the needy while at the same time reducing the burden of income tax. There are, he says, two conflicting concepts of social services. "One is to make provision for people in real need who cannot help themselves. The other is the concept of 'something for everybody', or the Welfare State, in which not only people in need, but *everyone* looks to the state to make his normal welfare provisions for him. . . . 'Nobody shoots Father Christmas' is a favourite political motto. But people would have a different attitude to a Father Christmas who came round on Boxing Day to collect the entire cost of the gifts he had handed out, together with a substantial commission for himself for having organised the distribution."

He rejects the current emotional opposition to means-tested benefits, pointing out that when public funds for the relief of poverty are limited, then if much of the available amount is paid out without means tests to those who do not really need it, there is that much

less to help those who really do. And, "At the same time. . . there is now a multiplicity of social services—over forty—in which separate means tests have to be applied, at considerable expense and often with inconsistent results. Simple rationality demands that there should be a single means test. And much the best way in which it could be administered is by precisely the same method as the means of the rest of us are tested, for income tax assessment—a care-



ful checking of income. Just as all with incomes above a certain limit (which should of course be far higher than the present lower limit for income taxation) should be liable to pay tax, so all with incomes below it should qualify for help."

The author further maintains that this help should be given, not in a multiplicity of services, but in cash, since the best judge of a poor family's requirements is itself. The giving of this freedom of choice would also tremendously reduce the administrative costs involved. His central principle is that "in place of the present patronising contempt with which Parliament tells them what is good for them, people can be trusted to learn for themselves how to handle their money and to provide rationally for their needs by paying for welfare services as they decide. This process of learning would be facilitated and accelerated by a system of reverse taxes."

Facts and figures abound in this paper, demonstrating that legislation with the object of helping the needy has succeeded in imposing massive costs, transferring large sums of public money to people who do not need it, reversing incentives to work and employing armies of administrators while leaving many families still hard-pressed.

The author proposes that this juggernaut should be replaced by a reverse tax system, under which a minimum standard of income should be set, taking account of the number of dependants, above which it is reasonable to consider that income tax should be payable. Families with income below the minimum should receive a payment based upon the shortfall. Help would be immediate upon successful proof of the validity of the claim. Careful consideration is given to incentives and proposals made to ensure that they are improved. Cases are worked through and tabulated and comparisons made with the existing system. Costs and yields of the scheme are estimated.

The end product is a convincing demonstration that a reverse tax system would be more desirable and more practicable than our present welfare state. But the fundamental question of whether taxation upon productive effort is the best economic and moral basis for a system of public finance is not considered. One is left with the feeling that considerable research and effort has been put into proposing the patching up of a basically defective tax system—disappointing when one bears in mind Colin Clark's considerable knowledge and experience in the field of the finance of public authority expenditure through the collection of the rent of land.

Preferable though reverse tax may be to what we have now, it does nothing to challenge those institutions which give rise to a needy class in society—but this, Professor Clark would no doubt reply, it is not intended to do.

## FAREWELL TO £10m WELFARE

**T**HE Auditor General is to be asked to investigate the large and growing losses in the payment of social security benefits.

Mr. Stanley Orme, Social Services Minister, has confirmed that "irrecoverable overpayments" made by his department had risen in the past four years from £4,600,000 to £10,700,000 in 1975-76.

—Daily Telegraph, June 17

\* *Poverty Before Politics*, Hobart Paper 73, Institute of Economic Affairs, £1.50.