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Declaring Dependence, Declaring Independence: Three Essays on the Future of the Welfare State

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1: Overview

Peter Saunders

Turning off the government

On my route to work through Sydney every morning, I drive under a huge electronic sign that straddles the northbound lanes of the Pacific Highway. It is there to flash urgent messages to drivers, warning them that there is an accident ahead, or that some road has been closed and they should take an alternative route. Most days, however, there are no accidents and all the roads are open. But rather than leave the sign blank on these mornings, the officials at the RTA always manage to invent some new warning or instruction to display to passing motorists.

Every morning, that sign is flashing at me. It is very distracting and, I suspect, really quite dangerous, for it diverts drivers' attention from the road (I defy anyone to ignore a flashing electronic sign directly overhead). Sometimes, when the message scrolls over two screens, your attention is distracted for several seconds as you wait for the second part of the text to appear. Yet the messages are rarely important and almost always banal.

Sometimes the sign tells me to look out for motorcyclists in the blind spot in my mirrors. At other times, it tells me to buckle my seatbelt, or reminds me of the alcohol restrictions that apply to P-plate drivers. Occasionally it assures me that speed zone restrictions are enforced. But it surpassed itself the other week when it commanded me to 'PAY ATTENTION TO TRAFFIC SIGNS.'

This giant sign is a metaphor for much of what is wrong with government in Australia. It costs money to keep it running. It often sends out stupid messages. It is very intrusive. It can easily lead to counter-productive results (I sometimes wonder how many cyclists have been knocked off their bikes by motorists craning their necks to read a sign telling them to look out for cyclists). And most of the time, what it does is completely unnecessary. But as with the sign, so too with the government: nobody can bring themselves to turn it off, even when there is nothing useful for it to do.

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Earlier this year, one weekend in April, a thousand people converged on Canberra for what the prime minister called the ‘2020 Summit.’ They were divided into ten groups, and each was told to come up with ideas for what the government should do to make life better by the year 2020. What should the government do about health? What should the government do about social cohesion? What should the government do about the economy? And so on.

This was a strange event for a new Labor government to be hosting. You would think that after eleven years in opposition, Kevin Rudd and his ministers would be bursting with ideas about what they wanted to do once they got back into power. We might have expected them to invite people to Canberra to advise on *how* to implement their ideas—how to raise Indigenous levels of education, for example, or how to make the tax system simpler—but that wasn’t the point of the weekend. They insisted they really were casting around for suggestions about *what* they might do now they were running things. Like the RTA and its sign, the new Labor ministers found themselves with a government and didn’t know what to do with it.

When government is asking what to do, one might respond: why not do nothing? Why do governments always have to be *doing* things? Just because you are in power doesn’t necessarily mean you have to go around changing things, any more than having a giant electronic road sign means you always have to flash messages at passing drivers.

I saw a television interview recently with the British prime minister, Gordon Brown. At one point, he looked straight into the camera and said

I wake up in the morning thinking what we can do to help homeowners. I wake up in the morning thinking what we can do to help people who have got small businesses. I wake up in the morning thinking what we can do to help people looking for jobs.

Is this supposed to reassure Britain’s voters? Clearly, Brown has never come across Ronald Reagan’s famous dictum: ‘The nine most terrifying words in the English language are, “I’m from the government and I’m here to help.” ’

Unlike Ronald Reagan, politicians like Rudd and Brown assume government exists to do things. If it isn’t obvious that anything needs doing, they convene summits, facilitate dialogues, set up workshops, or lie awake in the early hours until they have found something for it to

do. With their hands on the levers of power, the questions they want answered are, which levers should they move, how far, and in what direction? Leaving the levers alone is not an option.

Every day that the federal parliament sits in Canberra, another hundred pages of new laws get added to the statute book. I once heard former Labor leader Mark Latham estimate that if regulations keep growing at this rate, it will take a thousand removal trucks to house all our laws by the end of the twenty-first century.

The present slim volume has been written in reaction to all this. It explores the idea that we might ‘turn off’ the government when there is nothing useful for it to do. I hasten to add that I do not mean we should turn it off *completely*. There is plainly a need for government to organise foreign affairs, chase criminals, enforce contracts, and provide indivisible ‘public goods’ that the rest of us need but would not organise for ourselves if we were left to our own devices.

But modern governments do a lot of other things that—for most of us—are unnecessary and often get in the way. In particular, they run massive welfare states that many of us do not need but that cost us a fortune (about 70% of everything governments in Australia spend goes on social expenditure). And they regulate a lot of the things we try to do that don’t need regulating (there are about 600 regulatory agencies in Australia, employing 35,000 people).¹

Now, it is true that some people may need all this care and attention. Some people really do need the government to provide them with an income, give them housing, medicate them when they fall ill, educate their children, and save money for them for when they grow old. For one reason or another, there have always been people who have needed others to provide for them. Today, they generally rely on the government.

It is also true that some people need to be told what to do. Some people really do need the government to tell them—in minute detail—how to live their lives. Some motorists may even benefit from that giant sign on the Pacific Highway reminding them to pay attention to road signs. Similarly, some people may need a giant paternalistic authority hovering over them, taking them by the hand, leading them away from risk and danger, and making all their important decisions for them.

But the core premise of the essays that follow is that most people do not need all this support and guidance. Indeed, for the majority of Australians, the government now represents more of a hindrance than a help, and more of an irritant than a facilitator. Most of us could get by

just fine if only the government would get out of the way and leave us alone.

Learned helplessness

Not everybody can look after themselves. Some people do need others to run their lives for them. But as the welfare state has expanded, so the number of autonomous people has shrunk and the number of dependent people has grown. The section of the population that needs a proactive and intrusive government has been dragging the rest of us down with it.

This happens because we only have one set of rules and one set of social policies. Government applies every rule created, and every policy introduced, to everyone, whether they need it or not. Because a few people can't be trusted to run their own lives, no one is trusted, so we all end up being treated as if we are incompetent. It is like being back at school, when one miscreant who misbehaved caused the whole class to be kept behind for detention. It wasn't fair then, and it isn't fair now.

As I began writing this in May 2008, a dramatic news story dominated the headlines. A group of fourteen twenty-somethings took a small boat without permission, overloaded it with people, and were partying on Sydney Harbour at 2:30 a.m. when they were struck by another vessel. Six of them died. Reporting this tragedy, the *Sydney Morning Herald* carried predictable calls for the introduction of tighter government regulations, to apply to everybody who wants to take a boat out onto the harbour.² Every time something bad happens, the cry goes up for more government spending and more regulation.

Every time a problem surfaces, politicians come under pressure to 'do something.' If house prices go up, politicians think they should intervene to solve the 'housing affordability crisis.' If parents find it hard raising children at the same time they are both pursuing careers, politicians pop up with baby bonuses, child care subsidies, and proposals for paid maternity leave. If somebody goes mad with a handgun, or people get fat eating junk food, or a reveller blows their hand off while lighting a firework, the knee-jerk response of politicians is to cast around for new regulations to stop people having guns, to prohibit fast-food advertising, or to ban the sale of fireworks.

In a mass democracy, such reactions are probably inevitable, for no politician ever won office by promising to do less for voters or by telling their constituents that some things are their own fault and they need to take more responsibility for their own behaviour. But the more this in-

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discriminate use of governmental authority spreads, the more it breeds the incompetence and irresponsibility it is supposed to counter.

Growing up in a society where government increasingly assumes responsibility for things, even the most responsible and sensible people start to assume they need the government to provide for them and tell them how to live their lives. Families earning \$100,000 or more per year start to think they need the government to give them family support payments. People who like a glass of wine with their meal start to fret over government warnings about overconsumption of alcohol. And competent drivers with unblemished records come to accept the RTA treating them as morons by telling them to look out for traffic signs.

Government agencies are increasingly regarding us all as incompetent children. The frightening thing is that this assumption of mass incompetence is gradually becoming a self-fulfilling prophecy.

Declaring dependence

This essay collection canvasses a twofold solution to the vicious cycle of government paternalism and citizen incompetence. The first part of the solution is that those who need constant help and surveillance should be able to *declare themselves dependent*. They can then get the help they need, along with all the niggling interference and busybody nagging that inevitably comes with it.

Welfare has always been paternalistic, but it is becoming more so. In four Aboriginal communities in Cape York, anyone who receives any kind of welfare payment (including Family Tax Benefit) is now subject to four behavioural conditions. They must: (1) send their children to school; (2) avoid abusing or neglecting their children; (3) avoid any offences related to drugs, alcohol, gambling, and family violence; and (4) abide by the conditions of their public housing tenancy.

If they breach any of these conditions, a local Family Responsibilities Commission can compel transgressors to attend counselling, specify how all or part of their welfare payment should be spent; or redirect their welfare payments to a more responsible adult to take care of their children.

The Cape York model was applied on a much wider canvas in the 2007 federal intervention in the Northern Territory. This imposed compulsory health checks on children, banned the sale of alcohol and possession of pornography, and imposed 'income management' regimes on all welfare recipients across twenty-three Indigenous communities.³ Shortly after this intervention began, Western Australia

allowed child protection agencies to ask Centrelink to impose income quarantines on welfare-recipient parents whose children are thought to be at risk of neglect or abuse.⁴ In New South Wales, a six-month trial that ties parents' welfare payments to their children's school attendance records is running in the mainly Aboriginal town of Walgett.⁵ The first conditional welfare trial in a non-Aboriginal community was announced in the north of Adelaide in late 2007, the proposal being that parents deemed to be wasting their welfare payments on drugs, alcohol, or gambling should have 40% of their benefit quarantined for food and rent and be issued with smart cards that could only be spent on approved purchases in participating local shops.⁶ The Rudd government has now committed itself to a welfare card, and is extending a trial of quarantining to six different communities Australia-wide, including two cities.⁷

Benefit quarantining has been made possible by the *Social Security Act*, which now empowers the federal government to impose 'income management schemes' on designated communities in the Northern Territory (where it has direct powers) *and* on specified categories of welfare claimants elsewhere in the country where there is evidence of neglect or poor school attendance.⁸ What began as an attempt to remedy dysfunctional Aboriginal communities is now evolving into a more general tool for managing the lives of welfare recipients, and this shift towards paternalism is likely to gather strength in the future.

In some ways, we should welcome this trend. Long-term, habitual exposure to welfare saps confidence and creates a culture of dependency (what Noel Pearson calls 'passive welfare'). The move towards a strongly paternalistic version of conditional welfare is a response to this. It tries to reverse the downward spiral of passive welfare by organising people's lives in a proactive way, pushing them into doing the things that would help them get back on their feet and stopping them from doing the things that add to their problems. Active paternalism is a lot better than benign neglect.

But this trend also poses some obvious dangers, not least of which is that the new paternalism could easily spread to the wider population. We have already seen this happen on a small scale with the federal government's Northern Territory intervention, which subjected whole communities to income management schemes. This treated people who were behaving responsibly in exactly the same way as those who were not, losing responsibility for their budgeting even though they were raising their children competently and were not involved in substance abuse. The danger is that, in future, this sort of approach might be taken on a much larger scale. The shadow minister for families and community affairs, Tony Abbott, has already suggested that *everybody*

on welfare should be subject to quarantining of payments to ensure money goes on rent and food.⁹ If we go down this path, the next logical step is to quarantine Family Tax Benefit payments, for these are explicitly intended to help parents with the cost of raising children. With 90% of the nation's families in receipt of FTB, there is massive potential here for extending government paternalism to a point where millions of people are having the government manage their budgets for them.

To avoid smothering whole sections of the population in a new blanket of big-government paternalism, it is crucial to draw a clear distinction between those who really do need their lives managed by other people, and those who can reasonably be expected to get along on their own. It is in this light that the idea of having people declare themselves dependent on the government is particularly interesting.

In their contribution to this collection, Eugene Dubossarsky and Stephen Samild suggest that you should be able to declare yourself dependent on the government, but that it should not be costless. In particular, those who declare dependence should lose their right to vote. Dubossarsky and Samild's logic here is impeccable, for people who freely admit they cannot be trusted to run their own lives should presumably not be trusted to run other people's either. Dependent children have a right to be looked after, but they cannot claim the full range of freedoms that adults expect. Likewise, those who declare themselves incompetent to organise their own lives should not expect to exercise all the rights that autonomous and responsible citizens take for granted.

Dubossarsky and Samild argue that self-declared dependent people cannot be entrusted with a role in selecting the nation's government. They base this proposition on John Stuart Mill's discussion of the case for a universal franchise. Mill supported extension of the franchise, including votes for women—a radical idea in the mid-nineteenth century—and abolition of property qualifications for voting. However, he also pointed out that the right to vote assumes the elector is mature and responsible and has a material interest in the activities of government.

If you declare that you are not responsible, you clearly fail on the first of these criteria; if you further affirm that rather than contributing to the communal exchequer, you wish only to withdraw funds from it so that you may be supported by others, you fail just as clearly on the second. Like members of a voluntary association, or shareholders in a company, if you have paid nothing in you can hardly expect to be al-

lowed to vote on how the money should be divvied up (especially when it comes to determining how much of it should be given to you).¹⁰

In addition to those that Dubossarsky and Samild explore, there might be other implications of declaring dependence. If you cannot organise your own affairs, for example, it is probably unwise to allow you anywhere near a jury room, where you will be expected to weigh evidence and determine the guilt or innocence of accused parties in a court of law. Like voting, this is a serious civic responsibility that should only be entrusted to those who achieve full, adult citizenship. It should not be given willy-nilly to people who cannot run their own lives.

In their essay, Dubossarsky and Samild suggest the main advantage of withdrawing the vote from people who declare themselves dependent will be to strengthen democracy by weakening the politicians' ability to buy votes. About four in ten Australian voters today rely on the government for an income (as public-sector employees or welfare dependents). This level of dependency on government revenues establishes a putative public-sector voting bloc with a permanent interest in raiding the earnings of the non-government sector to fund ever-increasing government expenditure. This is precisely what nineteenth-century opponents of democracy feared would happen once people had the right to vote themselves an income, and the proposal outlined by Dubossarsky and Samild will go some way to addressing this distortion and restoring integrity to the democratic process.

Dubossarsky and Samild also claim that the prospect of losing one's vote could provide a strong motivation for people to get off welfare and establish self-reliance. In my view, this is a much more debatable part of their argument, for the right to vote may have remarkably little value for some people, who would be happy to trade it for a flow of welfare income. If we are looking for stronger incentives to get off welfare, the carrot may in this instance be much more significant than the stick. The advantages to be gained by 'declaring independence' are likely to provide much stronger reasons for people to become self-reliant than any perceived costs associated with 'declaring dependence.'

Declaring independence

John Humphreys' chapter discusses the second part of the solution to the increasing infantilisation of the population caused by the perpetual growth of the welfare. He suggests that those who are capable of making their own way in the world should be allowed to '*declare their independence.*'

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This proposal grows out of the evidence on ‘tax–welfare churning,’ which shows that many people are already paying for most or all of the benefits and services they receive from the modern welfare state. This means they would be no worse off if they opted out and made their own provisions.

One hundred years ago, it took just over three weeks for Australians to produce all the wealth needed to pay for all the state and federal government services for a whole year. Today, this takes almost four months.¹¹ A major reason why governments nowadays take so much more tax than they used to is that they have committed themselves to providing people with more and more services and income transfers. This is fine where people really need the help. But an awful lot of this expenditure today goes on services and cash benefits for people who could perfectly well provide for themselves.¹²

We think of the modern welfare state as a giant Robin Hood system, taking money from the rich and giving it to the poor. But in reality, much of it functions more like a piggy bank: the same people who put the money in take it out again. I have estimated that at least half of all the social expenditure by governments in Australia today is ‘churned’ in this way (the true figure is probably closer to two-thirds). Put another way, less than half the money governments hand out is actually redistributed from richer to poorer people.

This means the same people who are receiving benefits with one hand are often also paying for them with the other. In 2007, the Australian Bureau of Statistics announced that the average couple with dependent children paid a total of \$519 per week in taxes in 2003–04, and received a total \$501 per week in benefits.¹³ Had the government simply left them alone, their financial circumstances would have been almost exactly the same! Even the richest 20% of individuals in the country received back in government benefits more than one-third of what they paid to the government in taxes.

The great ‘middle mass’ of Australian households hands over thousands of dollars of tax every year (not just income tax, but also GST, state taxes, and company taxes passed on to consumers in higher prices), and then gets a great slab of this handed back in the form of family support payments, subsidised child care, government age pensions, Medicare subsidies, public hospital treatment, and so on. They are then encouraged to feel ‘grateful’ when they are given their own cash back, less overheads. At election times, politicians fall over themselves offering to take ever more of our money away so they can give it back again in all sorts of attractive packages, but they neglect to men-

tion that if all this money hadn't been taken away from us in the first place, we could be providing these things for ourselves.

One hundred years ago, our great-grandparents were much less affluent than we are today. The government did not supply many of the necessities of life, but most people still managed okay. Even in those days, when the standard of living was much lower, most people managed to save for their old age, insure themselves and their families against sickness, or join a mutual aid organisation to provide them with income insurance. While the middle classes tended to pay directly for what they needed, many working families achieved self-reliance through cooperation with others. In 1913, for example, 46% of all the men, women, and children in Australia were covered by membership of a friendly society that covered their healthcare costs, pharmaceuticals, sickness, unemployment, and widows' benefits.¹⁴ These people did not look to government to provide for their needs, and they would have been appalled by the idea that huge chunks of their earnings should be sequestered by politicians claiming to know better than they did how to spend their money.

Yet here we are, a hundred years later, much better off financially thanks to a century of economic growth, yet apparently less able to look after ourselves than our great-grandparents were. The reason is simply that today, government takes away much of our income. This then leaves most of us with little choice but to accept dependency on whatever the government decides to give back.

By allowing people to declare independence, the autonomy that comes from earning and controlling your own income could be restored to the mass of the population, which has seen its independence eroded over the last fifty years. This is the core idea John Humphreys explores.

Self-declared independent people would still pay taxes, but they would pay *less* tax because they would undertake to look after themselves, rather than expecting the government to do everything for them. This means they could retain that portion of their tax contribution that is currently recycled back to them in the form of cash benefits and government welfare services. Instead of receiving government family payments, for example, they could pay less tax and then meet the costs of raising their children out of their own retained earnings. Similarly, rather than expecting Medicare and the public hospital system to tend to them when they are sick, they could pay less tax into the government healthcare system so they could afford to buy their own insurance using money put aside in special savings accounts. The core principle is that self-declared independent people would be left alone to make their own, autonomous arrangements, using their own money.

Self-declared independent people would also still be subject to the laws of the land—but only those laws that stop them from harming others, and stop others from harming them. These are the laws that must bind everyone if we are to live in a civilised and peaceable society. As independent adults, however, Humphreys proposes that those who declare independence should no longer be subject to the paternalistic laws that politicians put in place to stop us harming ourselves. Declaring independence means you no longer want or need the government to pass laws to protect you from yourself. It means you are happy to take the risks and bear the consequences of your own, freely chosen actions.

If they drive a car without wearing a seatbelt, for example, self-declared independent people would accept full responsibility for any unfortunate consequences that may follow. They would cover the full costs of their own medical treatment, and they would ensure their nearest and dearest do not become charges upon the state in the event of their disability or demise. Having made these provisions, there would no longer be any justification for the government (or anybody else, for that matter) to insist they wear a seatbelt, and they should not be threatened with sanctions such as the loss of their right to drive if they refuse to comply with such rules. Because the general public would bear none of the consequences of their risky behaviour, elected representatives would no longer have any business trying to regulate it.

The same logic applies if people choose to go cycling without helmets so the wind can blow through their hair, if they want to grow marijuana in pots on the windowsill so they can get stoned every evening, or if they want to buy fireworks to let off in their own backyards on New Year's Eve because they dislike the organised communalism of government-sponsored displays. Others may consider any or all of these activities unwise, but if anything goes wrong, it is the individuals themselves who would accept the consequences. They wouldn't trouble anybody else if they cracked their skull in a cycling accident, developed schizophrenia from smoking too much dope, or burned their fingers while lighting a Roman candle. They would freely accept these risks so no one else need concern themselves with regulating their behaviour to safeguard their welfare.

By declaring independence, individuals could therefore establish a right to be left alone by their government—even a government that thinks it has lots of good ideas and only wants to help.

One size does not fit all

The foundations for this volume were laid in an earlier collection of essays published by the Centre for Independent Studies, *In Praise of*

Elitism.¹⁵ That collection took issue with the unthinking version of egalitarianism that pervades so much discussion of social policy in Australia. This egalitarianism pretends that nobody is any more or less capable than anybody else when it comes to performing demanding tasks, and that almost everyone can be trusted to perform difficult duties competently and diligently. But worthwhile things done well require effort and ability, and these two assets are not evenly spread in the population. We readily understand this when it comes to sport, but we pretend not to understand it in most other areas of life, which actually matter a lot more. *In Praise of Elitism* detailed some of the disastrous results that follow when we refuse to acknowledge this reality.

Because we insist, for example, that almost anyone is capable of following complex arguments based on evidence and logic, we entrust legal decision-making to panels of jurors who are sometimes appallingly incompetent to carry out their duties (some jurors cannot even report accurately what verdict they have just returned). Similarly, because we believe every citizen should participate actively in the political process, we force everyone to vote even though we know that election outcomes are being determined by a minority of the population that does not understand what it is doing and knows and cares nothing about the outcome. Rather than abandon our faith in the egalitarian creed, we are willing to see vicious criminals freed (or innocent people jailed) by incompetent juries, and to see governments elected on the votes of the most ignorant electors.

All this would have appalled John Stuart Mill. Above all, Mill valued human enlightenment. He thought people should be encouraged to improve themselves, and he explicitly warned against valuing the views of the ignorant as equivalent to those of the educated. But in our post-modern culture of ethical relativism, we pretend that nobody is better than anybody else, and that no group's values or behaviour can be regarded as superior to any other's. Rather than demanding that people improve themselves, we reduce our standards to those of the lowest performers. We insist that lazy people are no worse than hardworking ones; that educated people are no wiser than those with little learning; and that people who look ahead and take precautions are no more deserving than those who are reckless. Nowadays we feel queasy about discriminating between people, so we choose to pretend they are equal even when their actions demonstrate they are not.

The result when it comes to public policy is a one-size-fits-all approach that treats the incompetent as if they are competent while treating the responsible as if they need constant guidance and correction. This is

not just very costly; it also generates all sorts of unintended and perverse outcomes.

For example, Australia's prime minister, Kevin Rudd, has set a target of raising year-12 retention rates from 75% to 90%. But research carried out by the Australian Council for Educational Research clearly shows that low-ability pupils do better if they leave school after year 10 and find a job. Their earnings are higher, and their employment rates are better, than those who stay on for another year or two and then try to find work. Giving more education to people who cannot benefit from it does harm, but nobody wants to hear this. It is much more comfortable to carry on pretending that low-ability students are just as capable of benefiting from more education as high-ability ones are, so we are going to blow billions of taxpayer dollars on feel-good educational 'investments,' even though we know they will not work.¹⁶

Similarly, the prime minister has proposed an expensive program of establishing multipurpose parent-and-child centres across the country. Research tells us that children from deprived homes can benefit from early intervention schemes like these, for they improve on the wretched parenting they receive at home, but most young children do better being raised by their own parents than being consigned to communal child care for long hours each day. Again, nobody wants to draw this distinction lest they 'stigmatise' hopeless parents. Instead, we are considering a nationwide program that at best would squander huge resources in areas where they are not needed, and at worst would encourage good parents to disadvantage their children by putting them into care for long hours.

Sometimes this sort of absurdity works the other way around as well. In addition to devising paternalistic interventions for incompetent people and imposing them across the board, we sometimes adopt a laissez-faire approach suitable for competent people and then apply it with disastrous consequences to those who are incapable of exercising responsibility.

A clear example is in family policy, where we refuse to make judgments about the merits of having two parents raise a child rather than one. The evidence is actually overwhelming that *on average*, children raised by single parents do much worse—they perform worse at school, they are more likely to get into trouble with the police, they are at much higher risk of physical or sexual abuse, and so on.¹⁷ But it is very difficult to get well-educated, middle-class people to accept this evidence, for in their experience it doesn't ring true. Most of the single parents they know are doing just fine: their kids are okay, and everyone involved is sensibly working things out. They are blissfully unaware that,

at the other end of the social scale, in a world they never visit, the spread of single parenting is creating misery and chaos. But it is the middle classes who draw up the policies and write the commentaries in the newspapers, so their view of the problem (which is basically that there is no problem) prevails, and nothing gets done to stem the avalanche of social pathologies in the hidden suburbs.

Another example of the same problem is thinking about so-called 'soft drugs.' Try suggesting that cannabis can create major problems and most educated, middle-class people will smile knowingly and tell you that you don't know what you are talking about. Again, this is because in their experience, the effects of cannabis are largely benign. They know how to use it and they do not allow it to dominate their lives. They have never met people like the group of unemployed youngsters I encountered in Melbourne a few years ago whose whole existence revolved around using dope and getting almost permanently stoned. These youngsters had rendered themselves unemployable and their lives had become meaningless. Policy pressure towards greater toleration of 'soft drugs' is therefore fine for the majority, but it could prove a disaster for people like these.

Horses for courses

The basic problem we face is that our egalitarian inclinations lead us to believe that what is true for one is true for all. If I am capable of making my own judgements about how to live my life, then you are presumed to be capable of making sensible judgements on how to live yours. By the same token, if the government thinks you need help in organising your life, it follows that I must endure governmental intrusion into mine, for nobody is any better or any worse, any more competent or any more stupid, any more responsible or any more needy, than anybody else. The same policies and the same regulations must therefore be appropriate for everyone.

As long as we keep telling ourselves this, we will continue to mix up competent people with incompetent ones, to the detriment of both. That is why this collection of essays suggests it is time to draw some boundaries. We must discriminate.

The proposal is that we allow people to decide for themselves if they need help, support, and direction in their lives, or want to run their own affairs. Dubossarsky and Samild spell out the case for allowing those that want help to 'declare dependency,' and Humphreys develops the argument for those who wish to lead autonomous lives and 'declare independence.'

Publishing these two essays side by side draws attention to a symmetry between two approaches to social policy that are more often regarded as incompatible:

1. The libertarian approach associated with writers such as Charles Murray, who wants to cut people loose from the apron strings of government.¹⁸ Murray sees welfare dependency as an economic problem caused by perverse incentives. He argues that individuals are rational economic calculators, and that if you offer people money for being needy, you will inevitably end up with more needy people. His answer is to reverse this vicious cycle by cutting back government provision and demanding that people take more responsibility for themselves.
2. The paternalistic approach associated with writers such as Lawrence Mead (or, in Australia, Noel Pearson). This approach sees welfare dependency as primarily a cultural problem, and argues that people become habituated to passivity. Mead, for example, insists that people on welfare generally know they should take more responsibility for themselves, but they don't think they are capable of doing it. The answer in cases like this is to attach paternalistic conditions to their receipt of aid, so that recipients are 'hassled' into doing the right thing as a condition of receiving help.

What we suggest in these essays is that Murray's libertarianism is valid for the majority of people, but that Mead's paternalism is necessary for a minority. Most of us could and should be coping without extensive aid and support from government, and in these cases the state needs to be rolled back and contained to give us the scope to make our own judgements about how to live. Murray, in this instance, is right.

But some of us probably cannot cope unaided, and in these cases it is right and appropriate that the government should play a directive, paternalistic role, supporting people materially where necessary and at the same time monitoring, regulating, cajoling, and enforcing good behaviour, so pushing the dependent in the right direction. In these cases, Mead is right.

Could it ever work?

Is it practical to suggest a divergent strategy for social policy? The majority would get Murray's approach—the chance to reduce their reliance on the state and assert their autonomy and freedom. The minority

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would get Mead's—more intense supervision and coordination as conditions of receiving financial and other support. Is it plausible to think that any political party might pick up an idea like this and run with it?

Probably not. Given the egalitarian bias in our democratic system of politics, it would be extremely difficult for any politician to put a program like this into practice. Even among the majority, many would be scared by the greater freedom it offers. Vociferous organisations claiming to speak for the minority would fiercely resist the increased conditions being attached to receipt of welfare. And politicians looking for votes would surely be disinclined to explain publicly that some voters are less competent and more irresponsible than others. All the political pressures therefore point to more of the same, rather than a radical change in direction.

But let us be clear where 'more of the same' is leading us: towards even bigger and less sustainable welfare bills, ever-more-intrusive government regulation of everyday life, and an increasingly infantilised population. This is why it is so important to air these issues, even though we know that politicians and commentators will be swift to dismiss them. Sometimes it is important to spell out the logical solutions to a problem even if they appear impractical or implausible. That way, we can at least clarify the direction we should be moving in, even if we suspect we'll never get all the way there. Seen in this way, *Declaring Dependence*, *Declaring Independence* establishes the benchmarks against which future real-life political developments should be evaluated.

The key messages from these essays are that we must stop turning responsible adults into irresponsible wards of the state, and we should stop giving irresponsible people responsibilities that they cannot hope to discharge adequately. To achieve this twofold objective, we must overcome our fear of discriminating. Some people need more paternalism in their lives, while others need more freedom. Social policy needs to be a whole lot smarter than it has been up to now, if it is to adequately reflect what both groups need.

¹ Craig Emerson, 'Complacency and Over-regulation are Holding Us Back,' *The Australian* (4 April 2007). See also Chris Berg, *The Growth of Australia's Regulatory State* (Melbourne: Institute of Public Affairs, 2008).

² Jordan Baker and others, 'Young Lives Destroyed in Reckless Moment,' *Sydney Morning Herald* (2 May 2008).

³ Joel Gibson, 'Swings and Roundabouts of Indigenous Fortune,' *Sydney Morning Herald* (30 November 2007); 'Important Steps to Better Quality of Life,' *Weekend Australian* (1–2 March 2008); Stephanie Peatling, 'Intervention Policy Does not Wash,' *Sydney Morning Herald* (3 March 2008).

⁴ Alexander Symonds, 'Quarantining of Welfare Extended,' *Australian Financial Review* (28 February 2008).

⁵ Joel Gibson, 'Town Ties Welfare Pay to Truancy,' *Sydney Morning Herald* (7 March 2008).

⁶ Andrew Faulkner, 'White Welfare Gets Some Tough Love,' *Weekend Australian* (15–16 September 2007). Although Labor gave the idea cautious backing at the time, the new federal government has now suspended funding of the smart cards, pending further review.

⁷ Patricia Karvelas, 'Parents to Lose Pay if Kids Miss School,' *The Australian* (14 May 2008).

⁸ 'A person may become subject to the income management regime because: (a) the person lives in a declared Northern Territory area; or (b) a Child Protection Officer of a State or Territory requires the person to be subject to the income management regime; or (c) the person, or the person's partner, has a child who does not meet school enrollment requirements; or (d) the person, or the person's partner, has a child who has unsatisfactory school attendance.' *Social Security and Other Legislation Amendment (Welfare Payment Reform) Act 2007, No. 130, part 3B, 123TA.*

⁹ Phillip Coorey 'Extend Welfare Quarantine to All: Abbott,' *Sydney Morning Herald* (2 May 2008).

¹⁰ Although Dubossarsky and Samild do not go into this, we might want to distinguish those who have no choice but to rely on the help of others (for example, people with severe disabilities preventing them from working), who might still be deemed competent, from those who could achieve autonomy but fail to. This is essentially the distinction between 'deserving' and 'undeserving' that underpinned English social policy for four hundred years or more after the establishment of the Elizabethan Poor Law.

¹¹ According to calculations by Centre for Independent Studies senior fellow Robert Carling, in 2008 Tax Freedom Day fell on 22 April for Australia.

¹² I have discussed the evidence at length in Peter Saunders, *The Government Giveth and the Government Taketh Away: Tax-welfare Churning and the Case for Welfare State Opt-outs* (Sydney: CIS, 2007).

¹³ Australian Bureau of Statistics (ABS), *Government Benefits, Taxes and Household Income*, ABS Cat. No. 6537.0 (Canberra: ABS, 2007).

¹⁴ David Green and Lawrence Cromwell, *Mutual Aid or Welfare State: Australia's Friendly Societies* (Sydney: George Allen & Unwin, 1984).

¹⁵ Peter Saunders, ed., *In Praise of Elitism* (Sydney: CIS, 2007). The volume includes essays by Charles Murray, Denis Dutton, and Claire Fox.

¹⁶ Peter Saunders, *What Are Low-ability Workers to Do When Unskilled Jobs Disappear? Part 1: Why More Education and Training Isn't the Answer*, CIS Issue Analysis 91 (Sydney: CIS, 2007).

¹⁷ Barry Maley, *Family and Marriage in Australia*, CIS Policy Monograph 53 (Sydney: CIS, 2001); Patricia Morgan, *Family Matters: Family Breakdown and its Consequences* (Wellington: New Zealand Business Roundtable, 2004).

¹⁸ For example: Charles Murray, *What it Means to be a Libertarian: A Personal Interpretation* (New York: Broadway Books, 1997).

2: Declaring Independence

John Humphreys

Half a century ago, most Australians were independent and self-reliant. Today, despite being significantly richer, almost everybody relies on the government to help pay their bills. The welfare state was introduced to help the unfortunate, but it has grown to dominate all parts of our lives, whether we need it or not.

Much money is still distributed to the unemployed and low-income earners. But much more money is taken from average working Australians and given back to those same people in welfare—including direct payments as well as subsidised services. There is no reason to keep these people playing the pointless and wasteful game of paying tax and receiving welfare.

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This chapter makes two suggestions. The first is that we can and should establish a mechanism whereby capable families can once again become self-sufficient, while still maintaining support for the less fortunate. This can be achieved through a four-step process that will take us towards a 'semi-welfare state.'

The second suggestion is that people who can fund their own lives, and thereby exercise choice, should be able to 'declare independence' from the nanny state and have greater control over their own lives without requiring the approval of politicians and bureaucrats.

The current state of welfare

Welfare involves a lot more than the Newstart Allowance (the 'dole'). It also involves the Disability Support Pension, the Age Pension, student allowances, and many other payments. In addition, parents can receive the Baby Bonus, child payments, and education subsidies. Finally, and importantly, there is significant government help in paying for health-care. The welfare system in Australia is universal. There is nobody in Australia who does not receive welfare in some form.

While families, health, and education are important for all Australians, it does not follow that the government must necessarily deliver these services to all Australians. The government has neither the correct skill-set nor the incentives to provide high-quality, efficient services.

The rationale for government help in these areas is not that the government is a more efficient supplier of goods and services than the private sector. Indeed, the government often provides lower quality at a higher price. The reason we have government help in health, education, and child care is to ensure that all families can enjoy a set minimum standard in these important areas.

For families who can already care for their children, pay for private education, and enrol in private health funds, the argument for government help disappears. These families are forced to pay a significant amount of their income to the government just so they can receive the same money back in inefficient services.

This pointless tax-welfare churning motivated Peter Saunders to write three papers on self-reliance that inspired some of the ideas in this paper.¹ Saunders notes that the Australian government churns up to \$90 billion each year, and he explains the costs associated with a system of churning, government control, and dependence. These problems have motivated Saunders to suggest an alternative approach to welfare, which I will call the 'semi-welfare state.'²

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The idea of the semi-welfare state is to continue providing the welfare to those families who need help, while providing a clearly defined path for people to move towards self-sufficiency as they become more financially independent. This should satisfy social democrats who insist on the importance of direct government welfare, while also pleasing liberal democrats who would like to see a smaller welfare state and greater individual responsibility.

As sensible as this option sounds, it is actually a significant departure from the current policy of universal welfare for all people from cradle to grave. Unfortunately, after a decade of important microeconomic reform at the end of the twentieth century, Australia has become increasingly reform-shy. But reform is needed.

Saunders' proposal for a semi-welfare state was based on the idea of 'opt-outs' for welfare, where people can decide between a high-tax, high-welfare system or lower tax and greater self-sufficiency. While endorsing the general idea of a semi-welfare state, the proposal in this paper suggests a more moderate alternative path towards self-sufficiency, which may be more politically acceptable: means testing.

A four-step plan for self-sufficiency

At the core of this proposal, the current infrastructure of the welfare state remains stable, and is always available to anyone in need. To shift the system from 'universal welfare' to 'semi-welfare,' it would be necessary to introduce four fairly moderate reforms:

1. means test all government services
2. properly cost all government services
3. institute a compulsory tax-free savings account
4. institute matching tax cuts to compensate for lost welfare payments

Means testing

It is impossible to create a path to self-sufficiency without removing welfare payments and services. This could be achieved through means testing welfare payments so that people on higher incomes are forced to become self-sufficient. Free-market advocates should endorse means testing as a way to diminish the welfare state, while social democrats should endorse means testing as a way to prevent high-income-earners accessing services designed for the disadvantaged.

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There are three problems with means testing welfare, but all can be easily overcome.

First, a significant amount of Australian welfare is distributed as a service, not a transfer. This includes Medicare, the Pharmaceutical Benefits Scheme (PBS), hospitals, and public schools. To means test these welfare services, it would be necessary to firstly introduce a proper system of pricing for public services. I discuss this below as 'proper costing of government services.'

The second issue with means testing is that without government support, a family may fail to invest in necessary spending, and when a crisis came they would again be dependent on the government. This issue was addressed with retirement income by introducing compulsory superannuation savings, which has proved a popular policy. The same solution would be available for other welfare payments, and will be discussed below as 'compulsory savings accounts.'

Third, the withdrawal of welfare payments increases the effective marginal tax rate (EMTR) that people face when they earn more income. The solution to this problem would be to ensure that lost welfare is matched with tax cuts. As explained below, it is possible to do this in a way that leaves the EMTR unchanged while maintaining government transfers to the disadvantaged.

Proper costing of government services

The proper costing of government services is not an exciting reform, but it is important. Even outside the context of this paper, it is a good idea for the government to clearly identify the value of the subsidies being provided to all citizens, so that we can have a more informed public debate.

The government should provide information about what Medicare insurance costs for each person covered. Likewise, it is possible to estimate the per-person cost of the PBS, hospitals, schools, and other government services. For the sake of transparency, it would be appropriate for the government to provide this information to all recipients of government services in an annual receipt.

For example, instead of receiving annual Medicare coverage without knowing the details, each citizen should be informed of the cost of the service and the subsidy received. For those dependent on the government, that would simply mean an annual notification that Medicare coverage costs them (say) \$2,500 and they are receiving a \$2,500 subsidy, so there is nothing left to pay.

In addition to the benefits of increased transparency and information, the proper costing of government services also allows the government to introduce means testing to government services. For example, as a family's income increased, its Medicare subsidy may decrease from \$2,500 to \$1,700, leaving it with a necessary payment of \$800 to receive Medicare coverage. As its income increased, its subsidy would decrease until finally it would be required to fund the entire cost of its Medicare coverage.

Of course, this family would be free to not take out Medicare coverage, but then it would have to pay for private health insurance or other forms of healthcare.

The increased transparency of the subsidy would also open up the possibility of allowing people to use their subsidy for healthcare other than Medicare insurance, thereby increasing choice and competition. For example, the aforementioned family may decide to use its remaining \$1700 subsidy to purchase private health insurance and other health services. Vern Hughes, Peter Saunders, and Noel Pearson have all previously suggested this 'voucher-style' approach.³ I am sympathetic to this approach, but it is an added extra and not central to the current policy proposal.

Compulsory savings account

Transparent information on subsidies makes means testing possible. But there is still a concern that people without access to free government services may fail to make their own plans and might consequently end up in serious trouble. For example, a family may fail to save for health insurance and then suffer a significant medical cost that it cannot afford.

Fear of such mistakes leads many Australians to support the 'nanny state' of politicians and bureaucrats controlling our behaviour. Since individuals can't be trusted to look after their own interests, the government makes it compulsory to go to school, to fund public healthcare, to use helmets and seatbelts, and to save for retirement. While it may be offensive to some classical liberal sensitivities, it is a very common attitude in Australia and must be addressed.

The solution to this problem already exists in the system we use for retirement—compulsory savings. This idea can be extended into a general 'compulsory savings account' (CSA) that could be used for several approved expenditures, such as healthcare (including compulsory insurance, hospitals, and the PBS), child care, and education.

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Peter Saunders first proposed a similar idea in 2005: the ‘personal future fund.’ Saunders suggested that the Australian Government Future Fund, now forecast to hold more than \$100 billion in accumulated budget surpluses by the end of 2009–10,⁴ should be split up and allocated to all Australian citizens as personal funds, which would equate to about \$5,000 per person at the end of that period. Saunders suggests mandatory contributions of 1% of income (offset against income tax cuts). This paper suggests a more significant role for CSAs, which would need a higher rate of contribution.

Saunders suggests that CSAs could be drawn upon to pay for six months of income replacement in the case of sickness or unemployment. If somebody used up all their money, then they could revert to the general welfare system and become entirely dependent on the government. While I am sympathetic to this approach, it is not fundamental to the current proposal.

The central role of CSAs would be to hold compulsory savings that would be used to pay for key services such as healthcare (compulsory insurance, hospitals, the PBS), child care, and education. As it would be compulsory to contribute to the savings account, and it would be compulsory to spend that money on approved activities, there is no longer any fear that people will mismanage their money and miss out on these vital services.

It is important at this point to note two things about CSAs and the means testing of welfare services. First, contributions to CSAs and withdrawal of government subsidies should only apply to people who are not still receiving direct welfare payments. People still dependent on the government for basic income need to be treated separately; Dubossarsky and Samild’s contribution to this collection goes into this issue.

Second, government subsidies should only be withdrawn at the same rate as the required contributions to the CSA, to ensure that people are always able to afford the minimum level of service. Of course, people would always be free to contribute more than the minimum towards their health, education, and child care.

By imitating and building on the already popular example of compulsory superannuation, CSAs should be relatively easy to introduce. The funds could initially be linked directly to each person’s superannuation account. The benefits of CSAs are very similar to the benefits of compulsory superannuation: incentives for increased self-sufficiency and higher savings.

Tax cuts

A final but significant problem with means testing is the impact on EMTRs. For example, if a person earns an extra \$100 and they pay \$30 tax on it, they have a marginal tax rate of 30%. But if they also lose \$40 in welfare benefits, for a total loss of \$70, they actually have an *effective* marginal tax rate of 70%, which is a strong disincentive against working and can lead to a 'poverty trap.' To ensure that means testing does not create unacceptably high EMTRs, tax cuts are absolutely necessary to make this reform work.

Further, if people are required to contribute a large portion of their income to the CSAs, it will leave them with significantly less disposable income unless there are offsetting tax cuts.

To ensure that nobody is worse off and that EMTRs do not change, the tax cuts should be matched exactly to the amount of lost welfare and also to the minimum required contribution to the CSA. This trade-off between tax cuts and lost welfare (with associated CSA contributions) should continue until a person no longer receives any government subsidy. In this way, no recipient of government subsidies would pay tax, and no taxpayer would receive government subsidies. Churning would be abolished, self-reliance restored, and taxes cut, all while maintaining the exact same welfare services for the unfortunate.

As these tax cuts will replace identical amounts of middle-class welfare, they should receive broad political support.

Evaluating the semi-welfare state

The interplay of the above four reforms is perhaps best illustrated with an example. Consider a situation where a person earns \$30,000 per year. Currently, they might pay \$3,000 per year in tax, which is then mostly churned back to them as \$2,500 per year in various health subsidies.

Under the proposed reforms, the health subsidies would be means tested. The worker would receive a lower subsidy, but be compensated by lower tax. In this simplified example, the worker would now pay \$500 per year in tax and receive no subsidy. The final part of the story is that this worker would be required to put \$2,500 per year into their 'compulsory savings account,' and they would be required to use a portion of that money to buy approved health services (including compulsory insurance). They could of course choose to spend more on healthcare if they wish. Alternatively, they could also decide to purchase the exact same government health insurance for \$2,500.

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In one sense, this would only be a minor reform. Very little would have changed. The only real consequence is that instead of ‘tax and spend’ we have returned to people some more control over their lives. Instead of contributing 15% or 30% of their income to the government, they would instead direct the same money to their CSAs, and use it to exactly offset lost welfare subsidies. Their disposable income would not change.

But the potential benefits would be significant. In addition to giving people the dignity of self-sufficiency, this reform would decrease the size of the welfare state, increase individual choice, and remove \$90 billion of wasteful churning from the economy every year.

Perhaps the most important benefit of the reform would be the long-term consequences. Under the current ‘universal welfare’ approach, welfare spending will continue to increase in Australia faster than GDP, as the aging population leads to greater demand for health services (see the Australian government’s *Intergenerational Report 2007*).⁵ This will ultimately lead either to higher taxes or cuts to government programs.

In contrast, under the ‘semi-welfare’ approach, welfare spending would trend down over time as continued economic growth helped push more people into self-sufficiency. This would mean that future generations could cut taxes, add to government programs, or do both. It is this long-term difference that provides the most compelling argument for welfare reform.

Once a person is self-sufficient, they should not have to contribute any additional money to their compulsory savings account. Instead, they would be required to contribute tax to general revenue to pay for welfare and public goods. But self-sufficient people should be allowed to make additional voluntary (tax-free) contributions to their compulsory savings account on the understanding that such savings could only be used for a limited number of approved purposes. This paper has already discussed healthcare, child care, and education as appropriate purposes. Saunders has suggested using the accounts as income insurance. Other potential approved expenditure might be long-term investments (including but not limited to property), charitable donations, or building a savings fund for children.

Declaring independence

Under the semi-welfare-state described above, anybody in need of government help would always have the welfare state to fall back on. However, it would also be possible for some families to work their way towards self-sufficiency and effectively escape the welfare state. In con-

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trast to the current system, these people would now be paying for their own health, education, and child care, and paying lower tax.

But while such people would have escaped the welfare state, they would still be subject to the nanny state. The welfare state is here to protect us from hard times. In contrast, the nanny state is here to protect us from ourselves. Once people had escaped welfare they would be self-sufficient, but as their lifestyles would still be closely controlled by the government, they would not yet be independent. The next step is to offer the opportunity for people to 'declare independence.'

The government does more than charge tax and protect the poor. There are hundreds of thousands of bureaucrats working every day to manage most elements of your life. They determine how much money you should save for retirement. They determine what education is appropriate, and how long you have to stay in it. They mandate health cover and control your health choices. They enforce seatbelt laws and helmet laws, and prosecute victimless crimes. The government carefully controls access to medicinal drugs and prohibits many recreational ones. Bureaucrats run expensive and wide-ranging campaigns against smoking, drinking, and eating the wrong foods. (Further, under the suggested 'semi-welfare state' described above, there would be compulsory savings).

The idea of the nanny state is so ingrained in modern politics that it is almost inevitable. Nearly everybody in Australia approves of some sort of rules or regulations designed to protect people from making a mistake. While this is the opposite of freedom in any meaningful sense of the word, it is the political reality we live with.⁶

People defend the nanny state primarily on two grounds: welfare and paternalism.

Under the current welfare system, any decision that a person makes regarding their own health has a public consequence, because the government is involved in funding everybody's healthcare. Consequently, defenders of the nanny state insist that decisions about smoking, drinking, eating, drug use, seatbelts, helmets, and any other action that is potentially dangerous should be regulated by the government. Likewise, because the government has committed to providing an old-age pension, defenders of the nanny state insist that it is appropriate to mandate compulsory superannuation.

While it isn't popular to admit it, the second reason for the nanny state is simple paternalism. The idea is that the government (politicians and bureaucrats) is probably more competent at making important deci-

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sions than most other people. Without government guidance, people may fail to make the appropriate educational and health decisions. They may take stupid risks. They may make decisions that the government thinks are wrong. Consequently, they need to have their decisions managed by somebody better informed than them.

Even if we accept these arguments, it does not follow that they apply to all people. This chapter accepts that the nanny state remains popular in Australia and that it will continue to watch over many people. If the reasons for the nanny state don't apply to some people, then it would be reasonable to allow them to 'declare independence' and escape its many rules, if they chose.

The defence of the nanny state on the grounds of public welfare could be largely solved through achieving self-sufficiency. If somebody could show that they had been self-sufficient for a set period of time (say, three years), had been a net contributor to society, had no debts with the government, had sufficient assets and income to maintain their self-sufficiency, and had no desire or intention of returning to dependence on the nanny and welfare states, the argument for micromanaging their life is significantly undermined. They have earned the right to own their own life.

One concern would be that people may choose to swap in and out of independence as it suits them. Consequently, declaring independence must be seen as a one-way decision. People should only be allowed to re-enter the welfare or nanny state if they declared bankruptcy or accepted sanctions similar to those associated with bankruptcy.

The paternalistic defence of the nanny state would also be undermined by the above criteria for long-term self-sufficiency. We already recognise varying degrees of paternalism for different people, depending on their capacity for making decisions. Children are denied the right to vote, drive, drink, and smoke. Adults have more rights than children because they are considered more responsible. If responsibility is a guide to being allowed to make your own decisions, then it follows that more responsible people should be free to make more of their own decisions.

If a person can show that they have been a law-abiding, self-sufficient, and contributing member of society for a number of years, this is a strong indicator of responsibility. If such a person wants greater independence, they should be able to apply for it. As they have shown that they are able to act like a fully independent adult, they deserve to be treated accordingly and allowed to control their own life decisions.

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Indeed, if we cannot trust such people with control of their own lives, why do we trust them (as politicians and bureaucrats) with the control of everybody else's life? It seems absurd to suggest that the only people in Australia responsible enough to manage important decisions all work for the government.

Given the possibility, some people might choose independence. Other law-abiding, self-sufficient people may choose not to declare independence. The benefit of independence would be the freedom to make personal decisions without interference from the government. This could include superannuation and saving decisions (superannuation no longer being compulsory or preserved for the independent), pursuing unapproved and risky activities, or any other decision that was voluntary and peaceful. Independence might also be a point of personal pride. Independent citizens would still have to pay tax and follow laws that protect the safety of others (such as laws against theft, assault, and fraud), but otherwise they would be free.

However, in declaring independence a person would be giving up the comfortable safety of the welfare system. For those without full independence, if their income dropped below the level of self-sufficiency, they would again receive government assistance. But for an independent person, if their income dropped they would still be required to look after themselves, or take the drastic step of declaring bankruptcy. Basically, they would have opted-out of the welfare and nanny states.

Conclusion

Australia needs welfare reform. This chapter suggests a path for moderate welfare reform that leaves nobody worse off, but could move us closer to a world where self-sufficient and independent citizens control their own lives.

Through means testing, transparent welfare, compulsory savings accounts, and tax cuts it would be possible to create a path to self-sufficiency. Further, by allowing law-abiding and self-sufficient people to 'declare independence,' it would be possible for the path to lead to even greater freedom. At the same time, welfare could be maintained for all those who need it.

As economic growth continues, more people would be able to become self-sufficient and independent. Eventually, it might even be possible to envisage an Australia dominated by independent people with truly free choice, where the government exists only in a much-diminished role of supplying public goods and helping the few left behind. I believe that is a vision worth pursuing.

Appendix: Levels of independence

Following this proposal, it is possible to note the various levels of dependence and independence that could be had on or from the welfare and nanny states.

1. **dependent:** dependent on government for basic income, with more limited personal freedoms than those in levels 2–4
2. **semi-dependent:** dependent on government for non-cash welfare (or short-term welfare)
3. **self-sufficient:** not dependent, and a net tax payer
4. **independent:** self-sufficient, with no welfare rights, but additional personal freedoms to those in levels 2 and 3.

At the moment, only the dependent and semi-dependent levels exist. This chapter suggests the introduction of a path towards self-sufficiency and independence. The companion chapter by Dubossarsky and Samild discusses the appropriate limits to place on the dependent.

Endnotes

¹ Peter Saunders, *The \$85 Billion Tax/Welfare Churn*, CIS Issue Analysis 57 (Sydney: CIS, 2005); Peter Saunders, *Six Arguments in Favour of Self-funding*, CIS Issue Analysis 61 (Sydney: CIS, 2005); Peter Saunders, *Twenty Million Future Funds*, CIS Issue Analysis 66 (Sydney: CIS, 66). Saunders later reworked these papers in *The Government Giveth and the Government Taketh Away*.

² Peter Saunders, *A Welfare State for Those Who Want One, Opt-outs for Those Who Don't*, CIS Issue Analysis 79 (Sydney: CIS, 2007).

³ Vern Hughes, 'A Cure for Health Care,' *Policy* 20:1 (Autumn 2004), 22–27; Peter Saunders, *A Welfare State for Those Who Want One, Opt-outs for Those Who Don't*; Noel Pearson, *Welfare Reform and Economic Development for Indigenous Communities*, CIS Occasional

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Publication 100 (Sydney: CIS, 2005).

⁴ Lenore Taylor and Glenda Korporall, 'We Won't Raid \$44bn Fund Pool, Says PM Kevin Rudd,' *The Australian* (15 May 2008).

⁵ Australian Government Treasury, *Intergenerational Report 2007* (Canberra: Commonwealth of Australia, 2007), www.treasury.gov.au/igr/.

⁶ For the idea of 'freedom' to have any meaning, it must include the freedom to make mistakes. Even under the most authoritarian dictators, people have always been free to do exactly as they were told. But freedom only makes sense if it is the freedom to make decisions that other people disapprove of (so long as it is voluntary and peaceful). See also John Humphreys, 'Freedom from Choice: The Government's Futile Quest to Take the Risk out of Life,' *Policy* 22:3 (Spring 2006).

⁷ This paraphrases Thomas Jefferson, who said in his first inaugural address as president of the United States, 'Sometimes it is said that man cannot be trusted with the government of himself. Can he, then, be trusted with the government of others?'

3: Declaring Dependence

Eugene Dubossarsky and Stephen Samild

Economist Bryan Caplan has demonstrated that voters display persistent biases about economics.¹ These biases are not random, but are *systematic* in the sense that individual errors aren't cancelled out in the aggregation process (as standard public choice theory has long assumed). This means the 'wisdom' of the crowd in the democratic arena consistently works against success.

Caplan identifies four mistaken beliefs that voters persist in holding because of their irrational appeal:

1. voters distrust markets
2. they downplay the benefits of international trade
3. they are confused about the source of economic growth, attributing it to labour inputs rather than productivity
4. they are wildly pessimistic in their expectations of future economic conditions

They also tend to confuse intentions with outcomes, allowing politicians to claim credit for results simply on the basis of having passed legislation, with little fear of downstream accountability for negative consequences.

Consistently bad but popular policies are the outcome of systematic voter irrationality. Democracies incline themselves towards self-harm because voters mistrust and constrain the mechanisms that provide for their future prosperity.

We are concerned with this problem in this chapter, and with an additional and compounding problem—a condition in which even a *rational* assessment by individual voters leads to aggregate outcomes that imperil the health of the body politic.

The self-enlarging welfare state

According to the latest official figures, 17.5% of working-age Australians—more than one in six of them—rely on welfare payments despite the sustained economic boom of the last fifteen years and record low unemployment. Only 3.5% are formally recorded as unemployed, but more than 5% are recorded as ‘disabled’ (a doubling in just twenty-five years) and almost 5% are ‘carers’ (most of them are single parents caring for dependent children, but numbers of these have started to fall since government policies started encouraging single parents back into the workforce). While huge, the overall dependency level of 17.5% is significantly below the peak of 24% recorded between 1995 and 1997. Yet it is still substantially above the 14% figure of 1980, and represents a massive increase compared with the estimate of just 3% for the early 1960s.²

Not all of these welfare recipients rely entirely on benefits—some combine benefits with an element of paid work—but nearly all are net tax beneficiaries who do not make a real contribution to the public purse. However, come election time, as adults they are compelled to vote. Their participation in the democratic process creates a serious conflict of interest.

As John Stuart Mill argued in the context of his support for the expansion of suffrage,

the assembly which votes the taxes, either general or local, should be elected exclusively by those who pay something towards the taxes imposed. Those who pay no taxes, disposing by their votes of other people’s money, have every motive to be lavish and none to economize. As far as money matters are concerned, any power of voting possessed by them is a violation of the fundamental principle of free government; a severance of the power of control from the interest in its beneficial exercise. It amounts to allowing them to put their hands into other people’s pockets for any purpose which they think fit to call a public one.³

Australia’s self-enlarging welfare state is an example of what economists call a ‘tragedy of the commons’—a situation where everyone takes as much as they can from a common resource because their personal gain outweighs their share of the collective cost. This has dire implications for our prosperity and sustainability.

In addressing this problem, we recognise that the welfare state is nonetheless the outcome of democratically expressed preferences, and we hold that any proposed measures to amend it should remain true to the

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core liberal democratic values of freedom, choice, opportunity, and representation.

We are not arguing that the welfare state should be abolished. There is overwhelming support for a taxpayer-funded safety net to ensure that the vulnerable, the disadvantaged, and those managing otherwise unfeasible life transitions are looked after during their times of need.⁴ Our concern is that a dysfunctional economy guided by a misaligned body politic eventually makes an effective welfare state impossible. The current configuration of tax and welfare is self-undermining, systematically stimulating welfare demand that must be met with greater taxation and an expanding bureaucracy, all the while reducing incentives to growth.

Those who generate wealth and are net contributors to the public purse fund the welfare cake, but it is in the interests of an increasing proportion of Australians to vote themselves a slice. The phenomenon of tax churning, whereby taxes are 'skimmed' and returned to (mostly middle-class) taxpayers in the form of specific goods and services or cash equivalents, after being cycled through the administrative mechanisms of the state, is a measure of the extent of this problem and of its tendency to escalate.

Churn exacts additional social costs by outsourcing personal responsibility to government. To the extent that taxpayers eventually get their own contributions back as specific purpose vouchers or rebates, or as actual goods and services, they have surrendered decision-making autonomy. And while the welfare state exists nominally for the protection of the few, the nanny state's encroachments affect everyone. Australian adults today can no longer lawfully celebrate New Year's Eve with their own fireworks, ride bicycles without helmets, or drive without seatbelts. Systematic application of the precautionary principle by governments, encouraged by lobbyists and rent seekers, has prohibited each of these and stigmatised many other choices (smacking children, for example). More broadly, it has undermined citizens' incentives and abilities to take responsibility for family and community, and to self-manage risk, resource allocation, security provision, and the transmission of culture and values.

This corrosive process can be seen at work currently in the area of diet, where eating is the new smoking and obesity is the new lung cancer. Obesity—however defined—is not a public health problem in any conventional sense. It is neither a disease nor contagious, and is by and large the result of personal choices. Yet a growing proportion of public money is being allocated to various interventions aimed at micromanaging what Australians eat. These will increase in scope, reach, and cost

in years to come. Their justification will be that they save public money in the long term, but this can only hold if it is assumed that individuals' health is government's responsibility and not their own.

One of the markers of adulthood is responsible decision-making. Adults can't guarantee they won't make mistakes, but they can and do take responsibility for the exercise of their own judgement and its consequences. That is why a common and natural reaction to these measures is to sense that one is being 'treated like a child.' Indeed, one is—a theme to which we will return shortly.

Ongoing democratic endorsement of the growth of the self-destructive welfare state is evidence of a sick body politic—a malaise more advanced in parts of Europe. Germany and France have belatedly recognised the dangers, but are deadlocked in addressing them due to the entrenched interests of an aging population, students, unions, and others who continue to vote themselves unsustainable entitlements. These voting blocs not only treat wealth generation as 'someone else's problem,' they exacerbate it by further institutionalising disincentives to business through the democratic process. The conflict of interest is thus playing itself out to the detriment of all.

Challenges to resolution

One way to resolve this conflict is with a modified democracy. The body politic would benefit from more responsible, capable, and appropriately motivated voting, but the nature of the democratic stalemate is such that voting patterns will not favourably self-correct. On the other hand, to consider restricting electoral participation only to those somehow determined 'fit' raises serious concerns.

Practically, the prospect of assessing eligibility and monitoring compliance introduces a number of challenges:

- criteria (on what basis is eligibility determined?)
- authority (who decides?)
- objectivity (how is fair and consistent assessment ensured?)
- testing (how is measurement conducted?)
- monitoring (how are changes over time detected?)

It also implies cost and design questions. For example, is it more efficient to ask citizens to prove eligibility or ineligibility to vote? More

fundamentally, many regard universal suffrage as a pinnacle of liberal democratic achievement and a core value. But Mill, the champion of expanded suffrage, by no means considered the vote an unqualified right:

I regard it as required by first principles, that the receipt of parish relief should be a peremptory disqualification for the franchise. He who cannot by his labour suffice for his own support has no claim to the privilege of helping himself to the money of others. By becoming dependent on the remaining members of the community for actual subsistence, he abdicates his claim to equal rights with them in other respects. Those to whom he is indebted for the continuance of his very existence may justly claim the exclusive management of those common concerns, to which he now brings nothing, or less than he takes away.⁵

The appeal to principle appears still less intractable when it is noted that a similar conflict of interest presents itself and is resolved daily in society. The family is a natural model for situations where the dependent depend and the providers decide, to the benefit of all. This model underpins almost all institutions involving adults and children, from the compulsory (schools) to the voluntary (scout groups, church groups, and sporting clubs). One side gives and the other side receives, but the side receiving does not set the rules. Children are ‘stakeholders’ in most family decisions, in the sense that outcomes affect them, but they are not afforded shareholders’ rights. In functioning families, children’s preferences and interests are appropriately weighted by their competence and contribution. Parents’ exercise of their duty of care is further supported by the state’s legal framework as children mature towards adulthood, through mandatory school attendance, restrictions on engaging in paid employment and entering into legal contracts, and prohibition from such ‘adult’ pleasures as consuming alcohol and tobacco. Under-eighteens are excluded from voting for the same reason that their transition from being learners to fully licensed drivers is carefully managed. Without minimum standards of competence in these areas, society would be more dysfunctional and dangerous.

Arguably, the same model can be seen in adapted form in other institutions, such as corporations and the military. Here, adults consent voluntarily and formally, through contract, to be bound by the authority of the decision-makers elected by those on whom their ongoing employment and welfare depends.

Resolution through the choice mechanism

We contend that this model can be used to define and resolve the state's currently problematic relationship with its dependents. In our modified democratic model, taxpayer-funded welfare is available to any citizen at any time, but is conditional on forfeiting voting rights. This realigns democratic enfranchisement with public contribution while retaining the safety net. All citizens benefit from an appropriately motivated democratic process.

The model is effective because it short-circuits the destructive feedback loop that escalates dependency. It recalibrates the interplay of work, taxation, and welfare, so that wealth creation is rewarded, self-reliance not penalised, and dependence on others discouraged.

Simultaneously, it ensures that state assistance remains available to anyone in serious need and without recourse to alternatives, and that its costs are shared according to means. Taxpayers consent to the transfer of their wealth, and dependents 'pay' by relinquishing their votes—the implicit value of which they determine by choosing when to declare dependence. This exchange builds the social capital of enfranchisement. It reorients the state's role towards the provision of true public goods, while the citizenry's role expands to reclaim personal responsibility and community stewardship.

First and foremost, this model significantly reduces politicians' ability to use welfare spending to buy votes. If a government knows that no one to whom it provides targeted payments can vote for it, it is highly unlikely to pursue such policies. In contrast to the profligate short-termism characterised by pre-election spending sprees and knee-jerk reactions to bad publicity, governments would instead have an incentive to develop more responsible and fair-minded policies. Reckless transfers such as the First Home Owner Grant—which was quickly absorbed by the rise in house prices it caused—would be given more balanced consideration.

Some will argue that those in need have 'no choice' but to be dependent, but this is beside the point. Need is inevitable: at any given time, some members of society will, through a combination of circumstances, find themselves in positions of vulnerability. In this context, we contend that the *definition* of need—as the point where a person requires the protection of a safety net—becomes important. Because need is subjective, this point is optimally determined through individual choice, just as the price system enables each consumer to maximise utility in a market setting. Every citizen can prioritise voting rights against access to welfare as he sees fit. This mechanism also elegantly

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resolves the perceived challenges of measurement and monitoring identified above. Answers to these practical questions appear fraught with complexity and arbitrariness if voter eligibility is conceived as a top-down, one-size-fits-all determination. But the answers emerge spontaneously when individuals are free to choose.

The choice mechanism also acts as a dynamic means test of appropriate minimum voter competence. The ability to look after oneself is a functional definition of adulthood. ‘Rational’ voters, by Caplan’s definition, are those that think more like economists. The most significant predictor of this quality turns out to be education level. Given that voting is voluntary in the US, and that a higher proportion of the less-educated self-exclude, he reasons that ‘if “get out the vote” campaigns led to 100% participation, politicians would have to compete for the affection of noticeably more biased voters than they do today.’⁶

Seen in this light, the current Australian model embeds maximum anti-economic bias (short of extending the vote to children). Given the correlation between welfare dependency and low levels of education, it follows that the adjusted median voter under our proposed model would be less susceptible to the self-harm tendencies that characterise the present. A better-informed electorate leads to better policies that benefit all citizens, especially dependents, whose livelihood is relatively more contingent on policy outcomes.

The democratic biases Caplan identifies significantly impair wealth generation. Wealth doesn’t come from nowhere. Governments respond to general voter pessimism and market distrust by over-regulating the economy, which constrains the very productivity that makes welfare possible. Dependent voters exacerbate this by free-riding on others’ hard work. Those who do so knowingly are in effect drilling holes in the boat—undermining the system that sustains them. The choice mechanism addresses this corrosiveness regardless of whether its source is ignorance or malevolence.

In inviting consideration and criticism of our model, we withhold other prescriptions relating to Australia’s welfare state, and assume its existing configuration as the application platform for the welfare choice apparatus. We propose a mechanism that would allow the democratic process to better determine its composition, in a way we expect would result in something other than an oversized welfare bureaucracy in a codependent relationship with its growing client base.

In this context, the model modifies incentives for three groups: independent citizens, dependent citizens, and government. Independent citizens of voting age experience an increase in political enfranchise-

ment at the margin, as their individual responsibility and competence is rewarded. Those citizens of voting age who are currently dependent on welfare (including middle-class welfare) would face a choice: continue to claim welfare and forfeit voting rights, or discontinue welfare and retain them. Most likely, some would immediately drop from the welfare rolls,⁷ and a steady reduction in dependency would continue over time, eventually reaching a natural baseline not unlike—and not unconnected to—unemployment. Welfare churn means that many Australians who receive welfare currently would gain financially or experience no change without it, provided taxation levels adjusted downwards in response to reduced claims and associated administrative overheads (we assume this transition). Some would be financially worse off but would still avoid making welfare claims so they could retain their voting rights. Such individuals would signal their willingness and ability to take care of themselves to their own levels of satisfaction.

Citizens of voting age who elect to remain or become dependent would be politically disenfranchised as a consequence of their dependence. Those who value participation in the democratic process might come to view independent citizenship as a worthy goal, with voting its reward. Some might consider their disenfranchisement of little consequence, but others would feel that for circumstances beyond their control they have been unfairly punished or condescended to.

Here we stress that the model makes minimal changes. We do not consider non-voting dependents to have ‘lost their voice’ or to have been ‘silenced.’ Freedom of speech and decision-making are not equivalent; we propose no changes to the former. We do not equate voting eligibility with citizenship, but distinguish between different expressions of citizenship. The body politic as a whole would benefit from the welfare choice model, but it is a policy reality that there would be some unintended consequences and collateral damage.

The emergence of a ‘dependents’ rights’ movement would not come as a surprise. It might be somewhat similar to and closely aligned with the existing welfare industry. Here, it is worth noting that sections of the left in the United States are presently challenging all existing discriminatory boundaries to enfranchisement, campaigning to further lower the voting age and to remove existing prohibitions on voting for prisoners, non-citizens, and the mentally ill.⁸

The biggest impact on government behaviour would be the dramatic reduction in its incentive to *directly* bribe taxpayers with their own money. This would not put an end to all rent seeking, however. Government would arguably be encouraged to shift its focus to corporate welfare, to better align its spending to its redefined constituency. There

is no reason to expect a reduction in other counterproductive appeals to voters, such as protectionism and overregulation. Still, under our proposal the median voter would be marginally more sceptical, and less susceptible to such forms of collective self-harm.

Any adult citizen should be free to declare dependence at any time, as a matter of personal choice informed by need. But we hold that shifting out of dependency must necessarily be more demanding and time-consuming than declaring it. Were it not, people could suddenly and temporarily declare independence as elections approached, and revoke their declaration soon after.

Conversely, those eligible, independent voters who do *not* wish to vote should not be given perverse incentives to claim welfare so they can avoid penalties. Voluntary voting must therefore accompany our other proposals. To ensure that the social capital associated with voting citizenship is not eroded, we insist on a probationary period for those moving out of dependence, during which welfare cannot be claimed and voting rights cannot be exercised.

Mill proposed that

As a condition of the franchise, a term should be fixed, say five years previous to the registry, during which the applicant's name has not been on the parish books as a recipient of relief. To be an uncertified bankrupt, or to have taken the benefit of the Insolvent Act, should disqualify for the franchise until the person has paid his debts, or at least proved that he is not now, and has not for some long period been, dependent on eleemosynary support. Non-payment of taxes, when so long persisted in that it cannot have arisen from inadvertence, should disqualify while it lasts. These exclusions are not in their nature permanent. They exact such conditions only as all are able, or ought to be able, to fulfill if they choose.⁹

We suggest that the 'upward mobility' timeframe exceed the maximum election term, but both its specific length and the possibility that certain objective markers of irresponsibility also negate voting rights, as Mill suggests, we consider subjects for further discussion.

We also omit a specific discussion of transfers to the elderly in the form of aged care benefits, and to all citizens in the form of universal health-care. These transfers are significant in population and dollar terms, and they do constitute welfare. But for purposes of considering our model's core proposition, they can be considered as implementation details (possibly exceptions). For the same reason, we acknowledge but do not

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further discuss the basic model's lack of distinction between deserving and undeserving welfare recipients (for example, between paraplegics and the lazy unemployed).

Another benefit of our model is that it shows us for whom the nanny state's control can be relaxed. While alcoholism, bad diet, and chronic gambling represent problem behaviours for some, enjoying a few drinks and a high-fat meal at the casino is a matter of harmless pleasure for others. Those who had passed the means test of self-reliance ought not be bothered by inappropriate interventions that assume a lack of responsibility, motivation, or competence. At the same time, those who might benefit from targeted assistance could self-identify their need.

We observe, as a secondary matter, that further distinctions may be made within the two classification levels created by the welfare choice mechanism. Different levels of dependence (say, from mild to acute) may be identified to consider differentiated means of compliance, support, and terms of transition. 'Hard' dependency might involve the preemptive micromanagement of behaviour, including such things as coercive restrictions on alcohol and drug intake. 'Soft' dependency might be limited to passive and reactive measures such as non-coercive provision of access to subsidised services, or the imposition of reactive penalties for self-destructive behaviour (such as not wearing a seatbelt while driving). We make no firm prescriptions here. One-size-fits-all solutions are observably wasteful and counterproductive, and common sense dictates that different mixes of options would best assist different individuals, depending on their needs and self-management capabilities. What regulations will be the 'best fit' for particular dependents or classes of dependents is an empirical question, so the state, taxpayers, and dependents would all profit from experimentation.

In closing, we note that universal suffrage is a relatively recent democratic experiment. Voting is an important act of responsible citizenship that affects others, and we consider arbitrary and non-meritocratic restrictions on its exercise—such as those of sex, race, land ownership, and social class that characterised our democracy's historical antecedents—to be inequitable. We also hold that the existing conflict of interest, in which enfranchised free riders escalate unsustainable dependence on the productive, needs to be restrained for the good of the body politic. We propose a choice between dependence and independence as the just means of conflict resolution.

- ¹ Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton: Princeton University Press, 2007).
- ² Dale Daniels, 'Trends in the Receipt of Income Support by Workforce Age People 1978 to 2007,' Parliamentary Library Background Note (22 April 2008), table 1. For data going back to 1965, see also Peter Whiteford and Gregory Angenent, *The Australian System of Social Protection: An Overview*, 2nd ed., Department of Family and Community Services Occasional Paper 6 (Canberra: Commonwealth of Australia, 2001), table 8.
- ³ John Stuart Mill, *Considerations on Representative Government* (New York: Harper & Brothers, 1862), 176.
- ⁴ Indeed, many who call themselves libertarians are today willing to support the welfare state in various configurations. Charles Murray's *In Our Hands* argues the case for universal and lifelong welfare capped at \$10,000 per year. Charles Murray, *In Our Hands: A Plan to Replace the Welfare State* (Washington: American Enterprise Institute, 2006).
- ⁵ John Stuart Mill, *Considerations on Representative Government*, 177–178.
- ⁶ Bryan Caplan, *The Myth of the Rational Voter*, 198.
- ⁷ Just such a reduction followed the passage of the federal *Personal Responsibility and Work Opportunity Reconciliation Act of 1996* in the United States, which made welfare contingent on employment.
- ⁸ Roger Clegg, 'Voting Rights on a Slippery Slope,' *Pajamas Media* (30 November 2007), pajamasmedia.com/2007/11/get_out_the_vote_who_shouldnt.php.
- ⁹ John Stuart Mill, *Considerations on Representative Government*, 178.