WELFARE PROGRAMME REFORM AND INCOME SUPPLEMENTS

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INTRODUCTION

The economic objectives that demand the consideration of State Authorities in any country, irrespective of the socio-political framework within which they are to be attained, could be reduced to two basic, generally conflicting, goals: Productivity and Distribution. These policy goals aim to determine and guide to achieve the scale upon which goods and services are to be produced and how the continually formed aggregate output is to be shared.

The distribution of the national product was regarded by David Ricardo[1] as the key to the comprehension of the entire economic mechanism. Ricardo hoped that insight could be gained into the working of econòmic forces and their interrelationships by understanding the laws of distribution. Although progress on the theoretical level has been relatively slow in fulfilling Ricardo's object of search, yet on the practical level public policies must proceed as if the effect of different influences were precisely known. Policy making and decision on such matters are not an easy task; for the distribution of the national output can be affected according to different criteria.

If *productivity* were chosen as the criterion for distribution, all members of the community would be limited to the income commensurate with their productive contribution to the total product; that is, remuneration of each factor is made according to the value of its marginal product.

However, a fair distribution would imply the principle of *need*. Yet distribution according to need alone would be inequitable because it would ignore the different individual contributions in productivity. Consequently, a reasonable combination of *both* criteria is necessary. Functional distribution, based on productivity,

[1] Ricardo D. 'Works' ed. P.Scraffa (Cambridge University Press, 1951). Vol. 8, pp. 238-9.

must be transformed into personal income distribution reflecting need.

The redistribution of national income is effected mainly through the tax-subsidy process of the State's budget. In achieving the desired pattern of income dispersion the State creates the real confrontation between the fundamental policy goals of production and distribution. In a relatively developed industrial community, the forces directed towards production succeed if the different productivities of individuals are reflected in corresponding remuneration differentials. Assuming that innate talents are randomly dispersed but that some individuals for various reasons, not least the social structure, are in a more favourable position than others for performing highly remunerative activities, it follows that inequality of distribution of income – and the concomitant distribution of wealth – would result.

Yet, within a social system there are forces which are intent upon income equalisation; although these are prepared to accept the fact that distribution measures aiming at more equal distribution do affect the efficiency of production in more than one way. The net outcome is expected to depend upon the relative strength of those factors operating through the tax schedules and social welfare programmes that tend to reduce a person's incentive to produce, and of those elements within the same tax-benefits mechanism that are inclined to increase the level of personal activity and output per unit of man-hour through improving the individual and social well-being, thereby raising willingness to produce as well as the aspirations for a better life.

This underlying issue points at the necessity to evaluate a public scheme within a general framework and to account for both the short and the long run. It provides the background for this paper's discussion of the necessity to reconsider the basic approach to public welfare programmes in Malta. For, at times, the general impression could be formed that thinking over the structure and implementation of the public budget is compartmentalised, with plans to stimulate or accelerate production rates and the level of employment developed independently of welfare programmes.

This paper sets down the key attitudes towards social welfare as reflected in the 1971 electoral programmes of the two major political parties in Malta. It defines what the proper aims of public assistance should be and, through a brief analysis of two welfare schemes, it suggests that there exist inherent forces leading to the incompatibility of a scheme's objectives arising, in part, from the failure to give due account to the cost side while proposing the set-up of new or modified assistance plans. Finally, it puts forward an idea that could be studied about the approach in State assistance; it points out that schemes based upon 'universalist' principles could lead to the failure of attaining otherwise feasible objectives if a more selective aid programme were to be followed.

In the absence of intensive research on various social problems and upon the best means of financing different solutions, schemes are bound to be formulated, at best, upon approximations of the real situation; and, at worse, upon outright hunches that would bear no relation to the true state of affairs. However, in both cases the important determining factor in carrying out a social welfare scheme remains the availability of public funds. Often, the money set aside for specific schemes tend to be residual in nature; the attitude being that aid would be increased if, and only if, funds could be found after the payment of unavoidable commitments in administration and development projects.

Social Welfare Programmes in Political Parties' Programmes

The 1971 election manifestoes of the two major political parties in Malta outline their policy principles.[2] Both parties are intent to extend the 'Welfare State'[3] through a more diversified assistance network, in cash or kind, to households and individuals. Income redistribution is thereby acknowledged to represent a fundamental factor for social stability and economic progress. One party bases its programmed work and social activity upon the belief, among others, that it is 'the obligation of a developed community not to tolerate avoidable hardships that could arise for the people be-

[2] The Electoral Programme of the Malta Labour Party (henceforth EPMLP): 'Malta Maltija fil-Paci u l-Progress'.

The Electoral Programme of the Nationalist Party (henceforth EPNP): 'Frott tal-Hidma – Nimxu 'l Quddiem'.

[3] The term 'Welfare State' eludes exact definition. However, it is taken here to refer to the creation of a society in which every citizen is provided by the State with services that ensure economic security for himself and his family.

cause of the excessive inequality between the rich and the poor',[4] The other party recognises as its greatest achievement '... the progress towards a uni-class society: middle income group'.[5]

To translate such ideals and aspirations into every-day life, the two parties proposed to further the provision of public housing construction, to introduce family allowances, to legislate a national minimum wage and to set up a national health insurance.[6] It ought to be presumed that such measures are directed to assist those who are in need: the sick, the aged, the low-income groups, categories of workers liable to be 'exploited' and the children of parents who fail, or are unable, to insure their households against disease and unemployment. Moreover, such assistance would be forthcoming from the community because it is recognised that particular households or individuals are unable to improve their social conditions on their own without the aid, in cash or in kind, from the State.

Cost estimations are nowhere given. It is therefore pertinent to point out that the limit to public expenditure is ultimately set not by policy but by revenue, not by politicians but by taxpayers. It seems that cost awareness is not effective with the result that the financial estimates of a scheme tend to be reduced to secondary importance. Thus, whereas both parties are prepared to restructure the contributory national insurance scheme to introduce relevant relationship between premiums and benefits – a step which inevitably had to be taken, – family allowances seem destined, if and when introduced, to be applicable 'universally', that is, paid to all households irrespective of the recipient's income. Similarly health insurance premiums are foreseen to be made compulsory for all households, the lesson from the inadequate funds in the National Insurance scheme appears, so far, to have gone unheeded.

Implied within such social welfare plans is the idea that somehow people are expected to act collectively as taxpayers, yet as beneficiaries of State services citizens are supposed to regard themselves as individuals. Such an illusion, if it exists, cannot last long, not in a relatively closely-knit community like the Mal-

[4] EPMLP p.15, n.3.
[5] EPNP par.23.
[6] Vid. EPMLP p.11 f, g, h, i.
EPNP par.16, 18.

tese where development programmes setting out to restructure the sectoral pattern of production could dictate the absolute level of wages and salaries that would establish beyond the reach of the greater majority the 'ideal' standard of living. Besides, it is through the claiming by the State of what presumably must be a relatively sizeable portion of an average weekly wage in indirect taxation and national insurance contributions that the social welfare programme can be run.[7]

The optimal way of implementing a general welfare programme is to assist those in need and to let those who can help themselves. The lower the number of people assisted, given funds available, the higher would be the benefits for every household; similarly, the more widespread are public benefits, the more costly would a scheme turn out to be once the 'quality' of a public service is determined. Any welfare scheme, existing or about to be introduced, need to be considered within the framework of the general demand for relatively limited public funds. The isolation of a scheme for assessing its respective feasibility in terms of social costs and benefits could render it fairly attractive, only to lead to financial supporting problems once in operation and incorporated in the general economic set-up. It would be very difficult for any Public Administration to discontinue public programmes once the State, for any reason, commits itself to provide a service.

Poverty: Definition, Measurement, and Alleviation

That assistance should go to the 'needy' is a fairly simple statement to make. But to define who the 'needy' are is a complex issue; for the term 'need' or 'poverty' is not easily defineable for policy purposes.

If 'poverty' is defined as inadequate income *relatively* to higher incomes, it turns out to be ineradicable: it would merely signify

[7] An estimate of the incidence of indirect taxes on families in various income strata could only be made after the data on household budgetary survey carried out by the Government in 1971-1972 is published. However, it could be assumed that since indirect tax revenue amounts to about 60% of Public funds raised locally, and since indirect taxes are *a priori* labelled regressive, then it follows that the contribution by households in the lower and lower-middle income groups appear to be contributing to a substantial share of government expenditure. It is difficult, however, to specify the range of this contribution.

that the distribution of talents and capabilities, innate or acquired, is not distributed equally among all individuals – as noted already, this results in an unequal earning potential.[8] If 'poverty' is translated to mean *absolute* inadequacy of the material conditions judged desireable and acceptable by a community – subject, therefore, to an upward transformation reflecting economic growth and the expected concomitant improvements in tastes and social conditions – it *can* be abolished by the redistribution of income.

A similar dichotomy is followed in the statistical valuation of the 'poverty limit' computed with the objective of distinguishing the poor from the non-poor. The estimate could be set in both absolute (fixed) and relative terms.

Policy makers in Malta have failed to declare the 'official' absolute poverty standard,[9] defined as the command over goods and services for consumption per period of time. The result of this omission could be illustrated by an example from the Non-contributory Old Age Pension Scheme (OAPS). Three different annual levels of income could be considered as absolute poverty lines. Data for 1973 would suggest the following levels for a single person:

(i) £M65.63 – the limit to personal income which disqualifies an individual from having his finances supplemented under the OAPS. Since no financial assistance is envisaged for a person whose income exceeds the above level, one must assume that the amount is sufficient to subsist.

(ii) £M164.58 – the amount guaranteed under the OAPS when the recipient's own income is zero; this amounts to

[8] Research on income distribution in the United States of America has led to the formulation of a hypothesis that the equal opportunity for education and training – recommendable on ethical grounds – could possibly lead to unwarranted results: instead of being egalitarian, spreading opportunities for education, combined with an increase in the general level of training, will increase the dispersion of earnings.

See: Reder M: 'A Partial Survey of the Theory of Income Distribution' (in Soltow L. ed. 'Six Papers on the Size Distribution of Wealth and Income' – National Bureau of Economic Research, 1969).

[9] See Rote A.W. 'State Provisions for old age in Malta' (in 'Economic and Social Studies' Vol. I, 1971 – R.U.M.).

about two and a half times the sum indicated in (i) above.

(iii) £M198.08 – the annual funds guaranteed to a person whose income does not exceed £M31.50 per annum.

Under the National Assistance Act, the 1973 level of income per year (i.e. own income plus assistance) envisaged for a single person household amounted to £M165, corresponding, therefore to (ii) above.

The relative standard of poverty is defined as the level of income less than one half the median family income.[10] Unlike the absolute standard, the relative standard also provides a measure of the degree of inequality existing in the lower half of the income distribution. For whereas a fixed standard is independent of the shape of the income distribution, the location of the relative poverty line is determined by the shape of the lower half of the distribution.

Using data collected by the Department of Economics, Royal University of Malta, in 1971 for other purposes than estimating income distribution, the relative poverty line for that year is estimated to have been £M252.40c (i.e. half the median income £504.80c). The absolute poverty standard for the same period for a couple could be either £M65.63 or £M227.54,8 or £M258.94,8 under the OAPS when both husband and wife are entitled to assistance; or £M183.90 for a two-person household under the Social Assistance Programme.

A tentative classification of the category and amount of families whose incomes fell below the relative standard of poverty is supplied in Table 1.

The classification below should, of course, be considered solely as a first approximation to the magnitude of the problem; about 12 per cent of the households would be classified as 'poor' by this definition. Provided that the statistical data at hand represent the real situation, Table 1 would indicate:

(i) the degree of positive skewness in the distribution pattern of income in Malta;

[10]With positively skewed distribution, the mean value is disproportionately influenced by the very few high incomes at the upper end of the distribution; therefore it is not as suitable a measure of the centre of the distribution as is the median.

Table 1

AMOUNT AND CATEGORY OF FAMILIES WHOSE INCOME FALLS BELOW THE RELATIVE POVERTY LINE IN MALTA – 1971

CATEGORY	NUMBER OF FAMILIES
Single: Old Age Pensioners	7445 (a)
Couples: Old Age Pensioners	1155 (a)
Registering for Work: Married	1846 (b)
Widowed (Male & Female)	44 (b)
	10490

Note: (a) Department of Social Services
(b) Department of Labour. Data is for December 1971.

(ii) the social pressures that are bound to be both psychologically and financially demanding upon those families striving to keep up even with the minimum standard of decency in this time and community;

(iii) the other matters that become entangled in the poverty issue e.g. the urgency to prolong rent control legislation;

(iv) the increasing burden upon public finances as overall social conditions – housing, education, recreation facilities, personal consumption demand – keep on rising unchecked. As always, demand for public facilities is bound to exceed supply unless prices are adjusted to regulate it.

It becomes important, therefore, to establish the official poverty limit or range. Whichever statistical approach is accepted, continuous research in household budgetarty compositions and households' attitudes towards welfare programmes-cum-tax or opportunity cost payment need to be undertaken.

Households could fall within the 'poverty range' of the income distribution spectrum either because their income per period of time or averaged over several successive time periods, is inadequate; or because they misspend it. For example, people might not spend enough on housing, education, medical care or insurance for the maintenance of income in sickness, unemployment or old age. In particular, myopic and irresponsible behaviour of the parents would be witnessed on their dependent children. Or, even though certain households want to allocate realistic proportions of their family budgets they could not afford to provide for the basic services at the current market prices.

Welfare programmes should, therefore, distinguish between a 'static' view of poverty and a 'dynamic' view. A short-run programme can be based on a static view: see who constitute the 'poor' now and try to help them. So, if non-contributory old age pensioners are in great need, following, say, rapid increases in prices of those commodities consumed mainly by such group, they would be given preferential treatment.

A long-run programme must proceed from a dynamic objective; it must consider how people become poor and how they might escape poverty. It would become essential to provide work for all those who want it; and to ensure that the financial remuneration would be enough to enable a man to live decently and in moderation (admittedly difficult to define). At the same time a system would be introduced whereby income supplement programmes would not interfere with the work incentives.[11]

Long-run programming would integrate various activities of the Public sector: National economic planning; the provision of training and retraining opportunities to facilitate labour mobility as economic conditions would demand from time to time; assessment of welfare programmes following the evaluation of income withdrawals in taxation – both that raised on income and on consumption – and the supplement in cash or kind that accrues to beneficiaries from public welfare schemes. Aid should be distributed to specific categories of households whenever administration of schemes permits it.

In addition, decision would have to be reached on the form aid should assume: a subsidy to supply, or a subsidy to demand, or a

[11] Viewed within this framework, the setting up of the Pioneer Labour Corps in 1973 could prove a temporary solution provided it succeeds in giving Public Planners time sufficient to guide the economy through achieving long-term oriented industrial – service set up, and provided it prepares the workers psychologically to work in a different structured economy geared to production and sales.

a combination of both. To evaluate the benefit accruing from subsidising supply of commodities, one needs to possess fairly accurate information about the consumption patterns of households in different income strata; once consumption patterns are known the value of 'disguised transfer payments' in the form of supply subsidies could be discovered. Only then could a decision be judiciously reached; it would be learnt whether the people who need most State assistance are actually getting it in a higher proportion than those who, because of a better financial position, are considered less eligible for Government's help. Results from such studies could be socially embarrassing.

Demand subsidies are explicit; assistance is provided following means-testing and beneficiaries could be more easily identified. Such aid could take the form of direct cash payments or vouchers (coupons) to be exchanged for specified purposes. The main advantage of demand subsidies is that, given appropriate consideration to work incentive, it would lead to a lower burden on State expenditure for assistance purposes if work-creating programmes achieve their targets. As the conditions of a household (in terms of income, size or prolonged illness) change, allowances would change as well. The unidentifiable supply subsidies do not permit this degree of adjustment in State welfare programmes.

By way of illustration, consider the provision of public housing and its allocation. The costs for construction and related amenities are determined by market prices; imputed rent on capital outlay could be estimated accordingly. The Housing Department normally rents public apartments at a subsidized price to those households that qualify for them. Once the rent is determined, it would not be altered. This procedure is tantamount to a permanent transfer payment equivalent to the difference between the economic and the actual rent. It should not follow, however, that because a family was in need in a given year, it would still require assistance in the future. Through the combined provision of public housing supply and a demand subsidy, Public Authorities would not only ensure low-cost quality housing but, in principle at least, still retain the possibility of making the family bear a larger share in the financial burden for rental once its commitments become less.

In order to appreciate fully the importance of the relationship of Public provision, economic pricing, and demand subsidy, the role of prices in a market system need understanding. Pricing would not conflict with public schemes currently operating in Malta nor with some of those that are planned to be some day introduced. A comment on the role of prices in an economy seems therefore appropriate.

PRICES: A RATIONING DEVICE

Prices are one of the means of rationing a limited quantity of a good or a service; they ought to reflect costs, in terms of real resources, search-effort and time, for both suppliers and potential consumers. A price enables an individual to decide whether he wants to participate in a transaction or not: income, tastes, urgency (i.e. the intensity of need to purchase or to sell) would condition the willingness of a seller or a buyer to realise an exchange of goods.

Market transactions are said to function through the 'exclusion principle': a consumer must pay for the acquisition of commodities he desires; failure to pay excludes the consumer from obtaining a good. However certain commodities do not fall under this 'principle of exclusion'; they are said to provide the *economic* rationale for state provisions (as distinct from the more fundamental *political* argument for State intervention in the ownership and provision of goods).

As a rule, public provision should be restricted to those goods and services that are in joint supply – where consumption by one citizen does not reduce the amount available for the rest of the community – and commodities that produce 'externalities' – so that social costs and benefits diverge from private costs and benefits. Pricing would not be relevant for the distribution of such goods and services; hence the argument for 'free' state provision through general taxation.

However State intervention may also be undertaken to satisfy those social wants that are considered 'meritorious' of State subsidisation. Such wants, while subject to pricing and satisfied in part by the private sector, are provided for through the public budget, over and above what is provided through the market and paid for by private buyers.

If price fails or is ruled out as a distributive device, other means would have to be introduced. Rationing of supplies could be effected according to age, sex, social group, or status, to limit the list. It should be understood that public production and/or public provision need not imply 'free' distribution. Although public education is 'free' for those who want it, housing and pasteurised milk are not. This distinction should not be allowed to confuse the issues.

A 'zero pricing' policy is usually supported on the grounds of externalities or fairly inelastic demand schedules for goods provided through the State's budget. Critics of such procedure argue that zero pricing tends to distort the pattern of demand for a good or service and could give rise to over-supply: with zero price the amount demanded is expected to exceed any other amount subjected to a price greater than zero.

It is also argued that schemes relying on zero pricing, fully backed from general taxation or public loans, tend to undergo a deterioration in the quality of a service as financial costs rise over time. The undesired results are said to be reflected in the time lost in waiting with long lists of patients for hospital treatment; obsolete public buildings; overcrowded classes in schools; and heavy annual subsidies to meet shortages in funds for social security payments. The universal introduction of a public service, with zero or subsidized price, appears to lead to such situations.[12]

This paper argues that wherever possible the pricing mechanism as a rationing device should be implemented. It is also agreed that the level and pattern of a household's consumption cannot be separated from its income and maintenance burden. The dual purpose of giving meaning to price and effecting an income distribution that would enable families to attain the socially desireable living standards could be met by extending demand subsidies. The problems and side-effects of implementing such policies are now analysed. This is done through the assessment of Public Housing Policies and the National Insurance Scheme as administered in Malta over the past years.

Public Housing Programmes

A simple hypothetical example could best illustrate the situation. Assume throughout that it costs £M2300 to construct an apartment;

[12] For illustration of such a thesis see the works on Social Services published by the Institute of Economic Affairs in Britain and
Friedman M: 'Capitalism and Freedom' (University of Chicago Press, 1962).

rent is estimated at 6 per cent per annum i.e. rental amount to £M138; the apartment is leased at £M70 per annum – i.e. at an annual subsidy of £M68; omit the maintenance liabilities that fall on the State as owner.

The allocation of public housing apartments operates through a 'points system'. The weight a household's application is given depends upon the household's age structure – the size and composition of a family – its economic means and, if any, the structural and sanitary condition of its present residence. Family size and age are positively related to points allocation; financial means are negatively related; while a present small apartment in bad conditions would raise a household in the priority list. Such a system, equitable in principle, would determine that at a given time a family could claim priority to public housing and would be preferred to another household in 'better' conditions.

Certain points arise. First, the procedure leads to the formulation of a decision and stops. It does not follow up the effects of that decision for the system does not permit changes in rent demanded (£M70) from a household when conditions change, for example, children start working or the parents win a large sum of money. The subsidy going to this family (£M68 on our assumptions) will be permanent and tax free. A particular household is helped because at a given date it required assistance; the State intervenes and provides it with aid in the form of subsidised housing service. By the same reasoning, if conditions change for the better, the community, through the Public Authorities, ought to make the household help itself and pay a greater contribution for its housing i.e. the annual subsidy will be reduced from its original £M68. In this manner, the burden on public funds would be to the same extent lowered and the funds channelled for other purposes, including the assistance to those families, that would require help at that future date.

Moreover, although prima facie the system favours the large family with low income and living in inadequate housing, it could occur that such a family, precisely because of these same conditions that place it high in the priority list, would not afford to pay even the subsidized price. This means that if such a family is to be housed in the new building its income would have to be supplemented either directly or indirectly through a further reduction in annual rent. If the additional subsidies are not forthcoming, another household that falls lower in the priority list would be given the new apartment. The result observed in the preceeding paragraph would follow: perennial subsidy to the tenant. The family that ought to have been assisted in the first place would be relatively placed lower in the social scale with little hope of improving its housing problem; because it is poor and possessing no collateral, and a scheme of public insurance of funds borrowed for housing construction to meet cases of default is not available, such a family could not hope of raising a loan from a housing finance company.

In addition, so long as public housing rentals are not kept in line with the imputed rents on capital outlays, home ownership schemes in public housing apartments could not achieve their objectives. It is evident, of course, that there would always be people who prefer to own their home. But if market interest rates do not fall below the 'rental rate', and knowing that households' income will increase over time while rents contracted either remain static or are adjusted only after a long lag (revised every 50 years, for example) it does not appear economically worthwhile to purchase a State-owned apartment. The tenant secures subsidised housing service and retains his capital in any other form but not own housing and thus gains the freedom of choice in consumption. It is agreed that the value of real estate tend to be flexible upwards over time; but it is also true that a £M70 rental, twenty years forward from a given date would represent a lower burden upon a tenant. In order for public home-ownership schemes to materialise on the extent envisaged, thus creating a revolving fund for future projects, the rent charged should approximate the economic rent level,[13] thus rendering it worthwhile for a tenant to own the apartment. Pricing, reflecting cost, would recondition current demand for housing service and other goods and modify future plans for the same commodities.

An anomaly thus prevails: Public Authorities have repeatedly attempted to encourage tenants in Public housing estate to become owners but, unwittingly, have withdrawn the major incentive that

[13] By 'economic rent' is meant the total rent that buildings should theoretically receive to cover such elements as maintenance and operating costs, debt service costs and return on investment.

could contribute towards achieving this objective. At the same time, those households that ought to have benefited in the first place have not done so; the advantages from public schemes accruing to those households considered 'less' deserving.

A remedy to this situation could be found by the introduction of full economic rent pricing in public housing estates and a housing allowance to fill the 'rent gap' i.e. the difference between the economic and the actual rent. In this way, through overall economic planning aiming and achieving increases in real household income, the rent subsidy element could be adjusted to a family's conditions; there would arise an incentive for home-ownership, at least for terraced housing estates built by the State, and those families that need assistance would get it.

The solution is not without hazards; legal, ethical as well as financial problems demand careful study. Such a solution could be introduced at once in the renting of new apartments. But, to be equitable, it would have to be extended economy-wide; it should regulate both the public housing apartments already rented and those privately owned. It would be required to draw up plans of how to implement the policy without interfering with legally binding contracts and avoiding unnecessary litigations and potential social unrest. The existing housing legislation, amended over the years to meet specific objectives deemed recommendable at the time, has created different species of tenure and thus rendered a simple solution impossible so long as individual freedom is to be respected.

In addition, the injected freedom in the housing market[14] would produce changes in the distribution of income and wealth as a result of higher rents and a more diversified home-ownership. The tax-subsidy mechanism could be used to finance and rechannel funds from one sector to another; for example, part of the rent increase could be directly clawed back to provide the base for housing allowances. In so far as subsidies are related to household's income the increase in rent, if necessary, would be either fully borne by the tenant – at one extreme – or fully paid by the Government – at the other end, with the private landlord, where

[14] In reality different markets for living apartments could be distinguished by locality and size. The term here is used to cover the various markets.

relevant, contributing a set share equal to the clawed-back housing rate. If such tax 'earmarking' prove to be too complex to administer, and to fall back upon the concept of income as distinct from income-sources as the base for assessment, the income tax-subsidy structure could be so devised as to render the required funds for overall government expenditure, while providing an instrument for checking on private consumption.

The distribution of the housing 'burden' among tenants, landowners and the State would reflect the socio-political conditions of the time. But the approach described would introduce cost-awareness; it would make explicit the direction of the flow of real resources; it would unfreeze the housing market and add a further degree of freedom to public policy procedures.

The National Insurance Scheme[15]

The social insurance scheme implemented in Malta turns itself into a mechanism for income redistribution between different groups in so far as the value of annuities to which persons become entitled when they enter the scheme is not closely related to the weekly instalments paid. Two major kinds of redistribution could be identified: (i) From some retirement pension beneficiaries to others;
(ii) From the general tax-payer to the Scheme beneficiaries.

(i) Since its inception in 1956, the scheme's main objective has been to secure citizens of a reasonable income when they attain the 'legal' age of retiring from work; also it aimed to compensate for the then practically non-existing sickness benefit schemes in the private sector. Some entered the system relatively young; others entered it at an advanced age. This means that a person who contracted-in at a young age would pay more than the one who entered the system late in life and, in theory, could barely satisfy the minimum requirements for entitlement to benefits.

The income subsidy is not intended to help solely those in need, but is paid to beneficiaries independent of their poverty or wealth. Consequently, there does not appear to be any justification for this redistributive element.

[15] See Rote A.W. op. cit. pp.15 et seq.

(ii) The system is not self-financing.[16] This deficiency appears wherever such schemes are introduced. Once the fund has gone bankrupt, the weekly contributions would have to be raised and the annual funds required to keep the system in operation would normally have to be provided from Government's current tax revenue. The system appears to be self-financing during the period when instalments are being paid and few quality for the benefits. But this appearance is misleading for it neglects the obligations being accumulated with respect to the persons paying the tax. The fund becomes overburdened with claims for benefits to meet conditions of unemployment, sickness or retirement from work.

Once again there appears to be no proper justification for helping a man just because he is 61, especially when the tax-payer is called in to provide the annual deficit in the fund.

[16] Vid. The Budget Speech for fiscal year 1972-73. The Minister of Finance states:

'A commitment which we have to a large extent already provided for and which we feel it is imperative that the country should provide for is the need of building up again the National Insurance Fund to an acceptable level so that it can again become a sure means of safeguarding the worker's interest. Indeed ... we have already provided a subvention for £M1.2 million in 1971-1972. We again feel that the public purse should make a significant contribution also in 1972-73 and to this end provision has been taken for a subvention of £M600000 ...'.

At the presentation of the Government Budget for 1973-74, the same Minister once again takes up the subject and comments: 'My Government is not prepared to pass on to future generations of insured persons the burden resulting from inadequate contributions. In the circumstances, taking into account the advice of the Actuaries, my Government had decided to raise the contribution rate payable by each party in respect of adult employed person (employer and employed person) from 27c5 to 45c per week and to raise all other contribution rates proportionately.

These higher National Insurance payment will in effect mean an appreciable increase in the Government's support to the scheme. In fact the State contribution will go up by £M713,000 per annum while the Government's contribution as employer will increase by £M202,000 per annum, making a total of £M915,000'.

In the Budget for fiscal year 1974-75, the contribution rates were raised once more: for employers and employees the rate increased from 45 cents to 60 cents weekly; for the self-employed the rate became £M1.08,5 instead of 82 cents per week.

It is evident that the premiums paid are not sufficient to cover the present value of the annuity especially when it is definite that cost-of-living allowances to compensate for the rise in prices of consumer goods would be introduced at a flat rate in the future, This signifies that irrespective of the sum they have been nominally insured for, beneficiaries would certainly recoup on retirement higher returns than the amounts hoped for, apart from the benefits accruing during their working life.

The benefits from the scheme, then, are independent of income; distribution is equal for all insured. 'Contracting-in', however, is not optional; as a result the uniform contribution turns out to be a regressive tax: the lower one's income, the higher the percentage taken away by the State in social security contributions. Other results that ensue from the running of this scheme include:

- the reduction in the number of claimants for the Old Age Pension; to the extent that the scheme succeeded in making people think about the need to insure themselves against loss of income, it produced an educational means for responsible citizenship!
- The scheme could be regarded as a partial refunding of income taxation by providing a subsidized form of insurance. The annual household's savings, post-tax, are to this extent higher than they would otherwise be if the equivalent future annual income had to be secured through saving with a private insurance company.
- Government's commitments to honour claims for a scheme that is not self-financing – when it could be made so – reduces funds that could either be used for general public programmes or for selective assistance to those in 'need'.

The experience obtained from the running of the national insurance scheme should serve as a guide when deciding about the necessity and the structure of the proposed National Health Scheme. The projections of costs as much as benefits; and the identification of potential bearers of costs and potential beneficiaries must be determined. The *effective* beneficiaries and bearers of costs may turn out to be different from the *nominal*.

SUBSIDIZE DEMAND OR SUPPLY?

The two public schemes discussed suffice to emphasize the necessity to reconsider the general approach to Social Welfare Programmes. Public funds are relatively restricted; if assistance is to include quality in addition to quantity, the universalist 'free provision for all' principle would have to be narrowed to only few services. Whenever schemes are planned, the primary approach should be based on a pricing criterion.

Debate has been going for some time among economists about the validity of the proposal to meet inefficiencies that follow from 'unregulated' household income distribution by introducing a Reversal Income Tax (RIT) – a scheme based upon the principles and procedures of an income tax system but extending them downwards below the tax-free level to provide an increasing annual grant for the poor households.[17]

The idea is simple and surely equitable in principle; however the introduction on an economy-wide scale of such an integrated tax-subsidy scheme not only involves difficulties in administration but also could be financially heavy. The scheme would turn the household, as distinct from the individual, as the unit of assessment for both tax liability and benefit assistance: tax or assistance are determined by whether a household's income exceed or fall below stipulated levels.

A RIT can take several forms; but whatever its structure it must meet certain basic considerations, including, the provision of fully adequate help to the poorest, the operation of maximum selectivity in concentrating help on the poor, the preservation of the incentives to produce and the keeping of cost to a minimum in tax levied. Any scheme introduced would probably fail to meet all of these aspects; it will surely represent a compromise and the choice must rely upon the relative weights given to these considerations, which may be conflicting or complementary.

Of special importance is the incentive aspect.[18] A transfer pay-

[17] Vid. Muscovitch E. 'Income Supplements – How high Should they be?'
Anderson P.S. 'Pros, Cons and Some Alternatives'
(both papers in 'New England Economic Review' – Federal Reserve Bank of Boston – January/February 1971).
Christopher A. et al 'Policy for Poverty' (Institute of Economic Affairs – 1971).
Atkinson A.B. 'Policies for Poverty' (LLoyds Bank Review Number 100 – April 1971).
[18] Vid. Musgrave R.A. 'The Theory of Public Finance' (Mc Graw Hill 1959) pp. 251-254.

is likely to render people better off than they would otherwise have been. So on the assumption that the effect of the additional income is a stronger demand for leisure, people will work less hard. Besides, if the scheme is such that benefits diminish as income rises the substitution effect will also be adverse to work incentive. The restrictive element on incentive would presumably be stronger as the loss in benefits corresponding to income increase is relatively large i.e. as the implicit marginal tax rate (IMTR) rises,[19] the disincentive on additional effort increases.

This set-back could be remedied by introducing a scheme wherein a reduction in social benefits is less than proportional to increases in own income – set the IMTR to less than – 100 per cent. Such results could be achieved by classifying assistance to meet different degrees of 'welfare': a minimum income guarantee related to a 'poverty level' and additional allowances to meet specific purposes, for example, housing, education or social insurance.

The minimum income guarantee would be determined after assessing family needs by size. Assistance would automatically be given to those households whose income per period, or averaged over several periods, is less than the established level. Such a scheme would incorporate the notion of children's allowances since the minimum income level would be related to different family sizes. Moreover it would render the need to declare a national minimum wage unnecessary; trade unions and wages councils would be in a more suitable position to assess the absolute levels of wages in different industries.

The minimum income guarantee plan concerns itself with the basic welfare requirement of a family. Added to it would be specific allowances to meet certain goods and services that satisfy 'merit wants'.

Table 2 presents a hypothetical example of a 'multiple scheme' that attempts to meet the criticisms raised against the schemes now in use. It sets a minimum income level; frees the market for particular services; enables the Public Authorities to reduce subsidy as income and/or family size change; introduce consciousness in costs, thus tending to restrict citizens from insisting for

[19] The implicit marginal tax rate (IMTR) is defined as the reduction in social compensation following marginal increments in own income.

more 'free' benefits from the State; and makes easier the task of tracing income redistribution.

Table 2

A HYPOTHETICAL GENERAL WELFARE SCHEME

CATEGORY	MIG £M	HOUSING ALLOWANCE	EDUCATION ALLOWANCE	TOTAL INCOME	EDUCATION PRICE	NATIONAL INSURANCE	NET INCOME
OAP-Single	180	20	–	200	–	–	200
OAP-Couple	280	20	–	300	–	–	300
Married Couple +1 ch.	400	50	40	490	30	23.40	437.60
MC +2 ch.	450	50	80	580	60	23.40	497.60
MC +3 ch.	480	70	120	670	90	23.40	559.60
MC +4 ch.	510	70	160	740	120	23.40	596.60

(Note: Basic Assumptions: Education Allowances: = £M40 per child attending
(Secondary Education) school
Education Fees = £M30 per annum
National Insurance = 45c weekly (i.e. assuming contributor is an employee, at 1973 rates).

The above scheme, subdivided between a MIG and two types of service allowances omits income tax considerations for the levels set in the table renders them irrelevant. It is intended to illustrate how welfare programmes could incorporate the incentive to work element and pricing in public provided services. The MIG, considered on its own, implies a marginal tax rate of 100% – for each additional £M1 in own income, there would be a £M1 reduction in public assistance. However changes in Net Income could still be advantageous to the household if the aggregate allowances are not correspondingly reduced in a 1:1 ratio. Reduction could be introduced proportionwise but less than one.

Suppose that allowances are reduced in a 1:0.5 ratio – for each increase in own income above £M510 of £M1 (to take MC + 4 children case an illustration) credits would be reduced by 50c. In this way, the household would still be receiving benefits until own income reaches £M970. The gradual decline in assistance as own income rises is shown in Table 3.

Table 3

WELFARE PLAN WITH AN IMTR OF 50% – MC + 4 CHILDREN

OWN INCOME	CHANGE IN OWN INCOME	ALLOWANCES (HOUSING + EDUCATION	CHANGE IN ALLOWANCES	TOTAL INCOME
510		230		710
600	+90	185	–45	785
700	+190	135	–95	835
900	+390	35	–195	935
970	+460	–	–230	970

Note: Personal Income Tax is not relevant for a household under above income and size conditions.

A weekly wage of £M10 would satisfy the basic requirement of the scheme – own income would be £M520 per annum. The Public Exchequer would be assisting a family to meet the other 'socially desireable' needs while ensuring selectivity of assistance. Resentment on the part of those household units which would be required to contribute towards public services could be reduced once it is understood that the quality of the services could be raised; that there would be freedom of choice in 'consumption'; that other goods and services would be produced through the State expenditure once a proportion of costs for specific services would be covered; and that tax rates could remain unaltered even though public expenditure increases.

Such a scheme would not prove frictionless to introduce. Administrative problems could be expected to centre on two main items:

(i) the form assistance would take: cash or vouchers.

(ii) the introduction of economy-wide means testing and what should be included as the basis for assessing 'income' (i.e. the flow of resources per period).

The system, as dichotomised above, could adopt both approaches: use cash to build up the gap between household's own income and the minimum income level; introduce vouchers to meet the cost of services included in the scheme. Through this procedure, both the objectives of the individual and the Government would be met: a household is guaranteed a minimum amount of resources to be disposed of as desired; it would also be guaranteed financial assistance to be spent on specified goods if it qualifies for it.

The application of regular general means-tests for all households could be both expensive and irritating for the household. The use of the income tax return could, however, facilitate work by providing a classification of those types of households that are expected to fall within the assistance category. In a small community like Malta assessment should not prove an insurmountable obstacle. Data is already available, in part at least. What would be essential is the integration of information about each household that is probably available in dispersed form in different Government Departments.

The main emphasis would be on the basic level of income and how to enable households have control over an annual income flow through opportunities for work. The basic distribution of income derived from ownership of resources is in part the outcome of long-term economic planning; enterprises that would guarantee remuneration adequate to meet with minimal discomfort a moderate way of life would be encouraged.

CONCLUSION

Finding solutions for welfare problems is time-consuming. But the first indication that an awareness of the difficulties exists is the continual assessment of the schemes introduced in the past. The modifications that would be considered essential would reflect the planning horizon of Public Administrators and the extension of consciousness within a community of the fact that resources need to be created before they can be distributed.

The objective of this paper is to highlight the important aspects of income distribution plans. It does not attempt to measure potential impacts on aggregate activity of different distribution policies. It suggests that even at this stage when public officials are preoccupied with development, certain steps could be taken that will enable future administrations to regulate more efficiently the then relevant economic and social situations.

The main idea put forward is that whenever possible public assistance should subsidise demand; if public provision is considered optimal, then demand subsidy would complement public supply and thus 'free' the market. Demand subsidization assumes the establishment of different minimum income levels reflecting the desired value of goods and services that households, of different sizes, require in a modern community.

Data about the ranges on income and the consumption patterns could only be obtained after intensive research. Whatever income levels are suggested in the examples above should be considered as purely illustrative. The principle must be accepted first; the details will be completed after.