



POLICY BRIEF

# Would a universal basic income reduce poverty?

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## On basic income, we need to start with the basics

In some ways, the diverse support for basic income guarantees defies fundamental laws of political gravity. The idea that we should simply guarantee every person some minimum amount of money to meet their needs has vocal supporters from across the political spectrum; it seems to be the rare common ground for people who almost never agree on anything. This potential for unlikely alliances is turning heads and making universal basic income a surprisingly popular global topic. Canada is in the heart of this emerging international conversation with the Ontario government in the midst of developing a basic income pilot program<sup>1</sup> and Quebec exploring its options.<sup>2</sup>

As a policy idea, a universal basic income is not new. The idea was popular in the 1960s and 70s, backed by figures ranging from Martin Luther King Jr.<sup>3</sup> to Richard Nixon.<sup>4</sup> Canada famously ran a pilot project called MINCOME in Manitoba in the 1970s, and there were also a handful of other small, similar experiments in the U.S. during this period. After a long stretch waiting in the wings, the idea of a universal basic income has returned to centre stage. However, the shared enthusiasm can be misleading. When you scratch the surface, you find very quickly that people are talking about very different things with different merits.

At one end of the spectrum, some envision a transformation of our current social safety net, replacing core components (such as social housing) by giving people cash transfers instead.<sup>5</sup> At the other end of the spectrum,

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1 Benzie, Robert. "Wynne touts basic-income pilot project to help poor." 17 March 2016. Toronto Star. <https://www.thestar.com/news/canada/2016/03/17/wynne-touts-basic-income-pilot-project-to-help-poor.html>

2 Couillard, Philippe. "Allocution du premier ministre du Québec, Philippe Couillard, à l'occasion de la cérémonie de prestation de serment de membres du Conseil des ministres." 28 January 2016. Government of Quebec. <http://www.premier-ministre.gouv.qc.ca/actualites/allocutions/details.asp?idAllocutions=906>

3 Caffin, Brenton and Johar, Indy. "Basic income: a solution to which challenge?" 6 May 2016. Nesta. <http://www.nesta.org.uk/blog/basic-income-solution-which-challenge>

4 Dwyer, Paula. "A Basic Income Should be the Next Big Thing." 2 May 2016. Bloomberg View. <http://www.bloomberg.com/view/articles/2016-05-02/a-basic-income-should-be-the-next-big-thing>

5 "A Libertarian Case for Basic Income" (radio segment). 20 March 2016. The 180 with Jim Brown on CBC Radio. <http://www.cbc.ca/radio/the180/a-sovereignist-defends-english-a-case-for-guaranteed-minimum-income-and-more-alberta-road-trip-1.3496597/a-libertarian-case-for-a-guaranteed-minimum-income-1.3496657>

some are positioning basic income as an opportunity to significantly augment the current safety net with new investment.<sup>6</sup> So before we can talk about whether basic income is the right solution, we need to start with the basics – what exactly are we talking about?

That's a conversation worth having. There are some powerful goals behind the case for basic income including:

- Guaranteeing a minimum income that allows people to maintain a decent standard of living regardless of their circumstances;<sup>7</sup>
- Strengthening our social safety net by addressing its gaps and weaknesses; and
- Making sure that as our economy changes and creates new opportunities, those who are displaced do not get left behind.

These goals are important, but they are not unique to basic income. We have a number of policies and programs in place at all levels of government today that are designed to ensure a decent standard of living and opportunity for all – including guaranteed incomes for children and for seniors. Some make important contributions in bringing us closer to those goals, others underperform.

This policy brief looks to make sense of the competing visions of basic income, what proposed solutions are on the table, how much they would cost and how those proposals differ from what we have today. To look at the merits of universal basic income, we need to clarify which problems we are trying to solve, and ask not only whether a universal basic income would bring us closer to these goals, but whether it would be the best way to get there.

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6 Hughes, Chris. "The Case for Cash for All." 17 May 2016. Medium. <https://medium.com/@chrishughes/the-case-for-cash-for-all-612db8ab7e94#sspidi8j1>

7 See the work of the Joseph Rowntree Foundation on Minimum Income Standards. <https://www.jrf.org.uk/income-benefits/minimum-income-standards>

## What is “basic income,” anyway?

It depends who you ask. Basic income is an idea that has many names (including universal basic income, basic income guarantee, guaranteed annual income or guaranteed minimum income) and many definitions. The common theme of each of these definitions involves having the government transfer money to individuals or households without strings attached about how it is used or how people spend their time. The basic idea is that rather than the current suite of sometimes complex programs with different rules to get support if you need it (e.g., social assistance, subsidized housing, rebates for energy costs), the government would simply provide regular cash transfers to people, letting them direct that money towards their needs. Beyond that general idea, there are some fundamental differences between different proposals for a basic income.<sup>8</sup>

The simplest version of the idea is to give unconditional cash transfers to every person (or at least, every adult) in the province or country. Every person would receive the same amount regardless of their income, employment status, or need. This could be as simple as \$10,000 in the hands of every Canadian. While this is a very simplistic approach, this universal idea is the most commonly raised in popular discussions, and is being floated by a range of proponents.<sup>9</sup> The amount of this benefit varies between proposals but is usually fairly modest – sometimes set at the poverty line, often well below.

For example, in the state of Alaska, residents get an annual “dividend” payment from their state’s oil and gas revenues, generally in the range of C\$1,000-2,000 per person.<sup>10</sup> The Finnish government is currently considering a pilot that would provide €550 per month (about C\$810) to working age adults at first, increasing to €800 per month (about C\$1,180) to replace many social services.<sup>11</sup> To put that in perspective, that would bring a person without any additional income up to about 80 per cent of the Finnish poverty line.

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8 Flowers, Andrew. “What Would Happen If We Just Gave People Money?” 25 April 2016. FiveThirtyEight. <http://fivethirtyeight.com/features/universal-basic-income/>

9 See for example: Andressen, Erin. “To end poverty, give everyone in Canada \$20,000 a year. But are you willing to trust the poor?” 19 November 2010. The Globe and Mail. <http://www.theglobeandmail.com/news/national/to-end-poverty-guarantee-everyone-in-canada-20000-a-year-but-are-you-willing-to-trust-the-poor/article560885/>; Painter, Anthony. “In Support of a Universal Basic Income — Introducing the RSA Basic Income Model.” 16 December 2015. The RSA. <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2015/12/in-support-of-a-universal-basic-income--introducing-the-rsa-basic-income-model>

10 McFarland, Allen. “Alaska residents are paid a unique yearly dividend from the state’s permanent fund.” 1 May 2015. Energy Information Administration. <http://www.eia.gov/todayinenergy/detail.cfm?id=21052>

11 Bershidsky, Leonid. “Finns May Get Paid For Being Finns.” 3 November 2015. Bloomberg View. <http://www.bloomberg.com/view/articles/2015-11-03/finns-may-get-paid-for-being-finns>

The other main type of basic income – the one that was the subject of a few experiments in the 1960s and 1970s – is intended to “top up” a person’s income.<sup>12</sup> This is sometimes called a “negative income tax,” and works like refundable tax credits such as the GST/HST credit, where people with very low income can essentially receive a tax refund higher than the taxes they owe, leaving them overall with a boost to their incomes. Under this kind of basic income, as other income grows, the basic income guarantee is phased out until the top-up reaches zero, and people start to pay taxes on their income.

As basic income guarantees capture the public’s and policymakers’ attention, the distinction between these approaches has remained blurry. So have some important questions such as whether these guarantees would cover the needs of seniors and children as well as adults, and even whether a basic income is intended to replace or complement existing programs. To have a productive conversation about which (if any) version of basic income offers promise, we need to be clear about what is being proposed.

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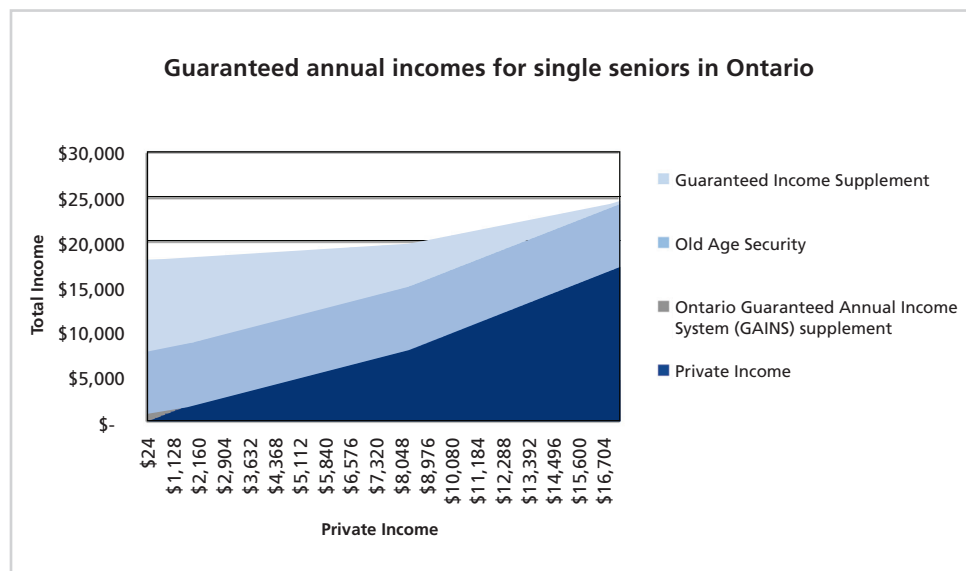
12 Segal, Hugh. “Scrapping Welfare: The case for guaranteeing all Canadians an income above the poverty line.” December 2012. *Literary Review of Canada*. <http://reviewcanada.ca/magazine/2012/12/scrapping-welfare/>

## How do basic income proposals differ from what we have today?

Many proposals around basic income treat it as something unfamiliar. For example, Vox’s Ezra Klein called it “the kind of radical policy that asks whether we actually need to live in this world, or whether there are better worlds on offer.”<sup>13</sup> This isn’t true. We have a long experience with guaranteed incomes or very similar policies all over the world, and in particular here in Canada.<sup>14</sup>

In Canada today we have two sets of programs that look quite a bit like guaranteed incomes for those who we expect to be outside the workforce – seniors and children.

The Old Age Security (OAS) program for seniors has been around in basically the same form for nearly a century, providing a guaranteed income to seniors regardless of their work history. The OAS currently provides \$6,880 per year for those receiving the maximum amount.

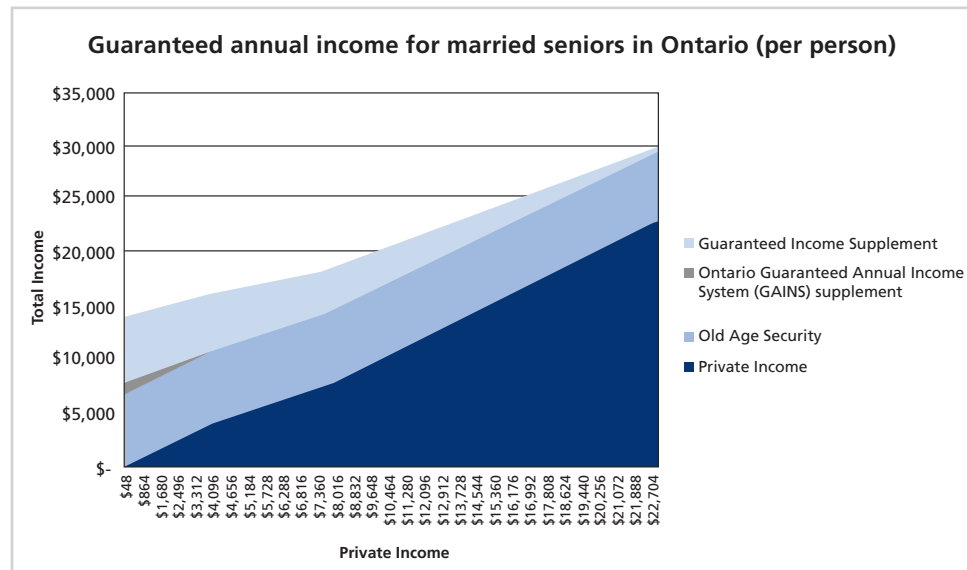


If you don’t have much income from other sources like pensions (Canada Pension Plan [CPP] or private), work or investments, then you can get more from the federal government (the Guaranteed Income Supplement [GIS], currently worth up to \$10,277 per year) and from provinces. In Ontario,

13 Klein, Ezra. “A universal basic income only makes sense if Americans change how they think about work.” 1 June 2016. Vox. <http://www.vox.com/2016/6/1/11827024/universal-basic-income>

14 Battle, Ken. “Guaranteed income or Guaranteed Incomes?” September 2015. Caledon Institute of Social Policy. <http://www.caledoninst.org/Publications/PDF/1078ENG.pdf>

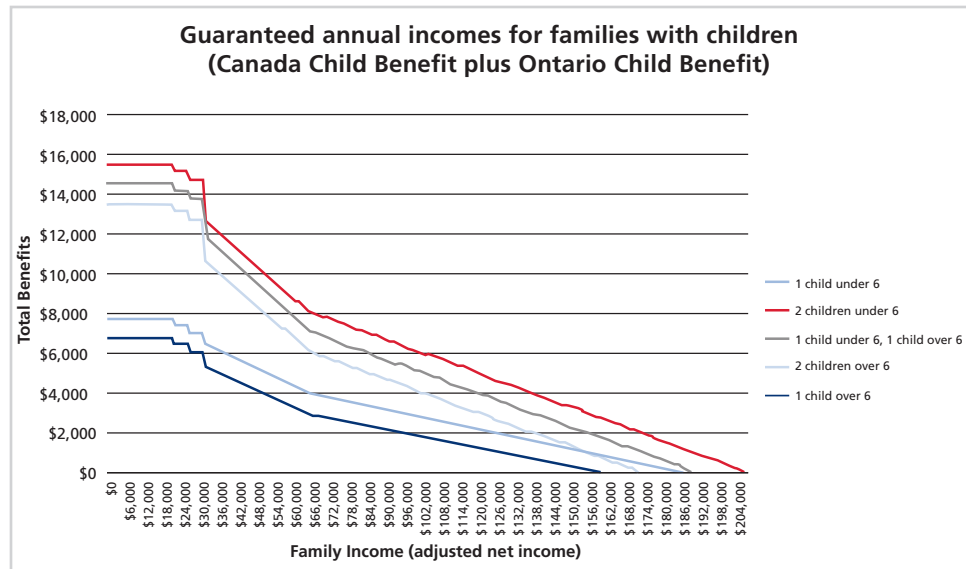
this combines for a guaranteed annual income of about \$18,200 for single seniors and about \$14,100 per person for couples.<sup>15</sup> These programs have both residency requirements and clawbacks on support as other income increases, but this looks pretty close to the archetype of a basic income guarantee, combining the universal grant with an income top-up system for those with very low incomes.



Canada also provides guaranteed incomes in the form of child benefits. Like Old Age Security, these benefits go back nearly a century to mother’s allowances.<sup>16</sup> For the last decade, our basic income guarantee for children included a combination of a universal grant with a top-up for those with low incomes. The Universal Child Care Benefit provided \$1,200 per year for each child in Canada under age six, and the National Child Benefit Supplement (along with provincial child benefits) provided targeted top-ups for low-income families. The largest program was the income-tested basic Child Tax Benefit, which served 9 in 10 families. As of July 2016, we have shifted to a different design of a basic income guarantee with the new Canada Child Benefit, which rolls different benefits and credits together into a single, larger basic income guarantee that delivers its largest benefit to lower-income families and phases out gradually as income increases.

15 Government of Ontario. “Guaranteed Annual Income System benefit rates.” Update July 1, 2016. [https://www.ontario.ca/data/guaranteed-annual-income-system-benefit-rates?\\_ga=1.261991181.1480671194.1463682162](https://www.ontario.ca/data/guaranteed-annual-income-system-benefit-rates?_ga=1.261991181.1480671194.1463682162)

16 Battle, Ken. “Child Benefits in Canada: Politics versus Policy.” June 2015. *Renewing Canada’s Social Architecture*. <http://social-architecture.ca/wp-content/uploads/ChildBenefitsInCanada.pdf>



The new Canada Child Benefit guarantees a minimum income for all but wealthy families with children – though that minimum depends on the size of the family and age of the children. For a family with two children under 6 in Ontario, they are guaranteed a minimum income of at least \$15,512 (when combined with the Ontario Child Benefit). The new program is designed so that families will not end up worse off by losing benefits as they earn other income, which reduces the risk of perverse “welfare wall” effects that can end up punishing people for taking steps to improve their lives (like working more).

We also see the idea of a guaranteed minimum income in the tax system, though in a smaller way. One way that this concept is applied is through the basic personal amount – the idea that a certain amount of income should not be taxable because we should not take away from a minimum level of income needed to purchase necessities. In 2015, that amount shielded from tax was \$11,327 federally and \$9,863 in Ontario provincial income tax. That’s worth a combined \$2,200 annually in tax saved for any Ontarian with at least that much income.

This is a basic income structured as a non-refundable tax credit – meaning you can only use it to deduct from taxes owing. Ironically, for a guaranteed minimum income policy, this means that someone with no taxable income gets no financial support from the basic personal amount, and the highest-earning Canadians get the full value. We invest quite a bit today in this poorly targeted basic income; the estimated cost of the basic personal amount was \$33.8 billion federally in 2015, with additional costs to each



province (\$4.3 billion in Ontario).<sup>17</sup>

In addition to these basic incomes, we have a whole suite of income support and income security programs that are meant to guarantee minimum levels of income – but are conditional in different ways that generally don't meet definitions of guaranteed annual incomes. For example, social assistance programs provide a basic level of support for people who don't have other sources of income or resources. Employment Insurance and disability insurance programs such as Ontario's Workplace Safety Insurance Board and CPP-Disability provide income replacement for people who contribute to the program over their careers if they lose their jobs or are unable to work because of disability. The Working Income Tax Benefit acts to top up people's income, but only for people who work.

Some parts of this suite of basic income guarantees work relatively well, and some fall disappointingly short. Old Age Security and the Guaranteed Income Supplement have played a critical role in reducing poverty for seniors.<sup>18</sup> The Canada Child Benefit is projected to move hundreds of thousands of children out of poverty in its first year.<sup>19</sup> However when you look at our income security system as a whole, we clearly have room for improvement. People with severe disabilities can get vastly different levels of support depending on how and when they acquired their disabilities. Social assistance provides support far below what it takes to afford necessities, and subjects people in need to a web of requirements that often prevent them from making lasting moves out of poverty, and doesn't treat recipients with dignity. The question is whether we would be better off replacing most or all of these different programs with a new universal basic income, or if it would be better to reform and add to the existing system so that they work together to meet minimum income standards.

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17 Figures from Department of Finance Canada. "Report on Federal Tax Expenditures — Concepts, Estimates and Evaluations 2016. March 2016. <https://www.fin.gc.ca/taxexp-depfisc/2016/taxexp1604-eng.asp#Credit-for-the-Basic-Personal-Amount>; and Ontario Ministry of Finance. "Transparency in Taxation, 2015." 26 November 2015. <http://www.fin.gov.on.ca/en/budget/fallstatement/2015/transparency.html>

18 Conference Board of Canada. "Elderly Poverty." How Canada Performs. <http://www.conferenceboard.ca/hcp/details/society/elderly-poverty.aspx>

19 Monsebraaten, Laurie. "Child benefit to pull record number of kids out of poverty, Minister says." 15 June 2016. Toronto Star. <https://www.thestar.com/news/gta/2016/06/15/child-benefit-to-pull-record-number-of-kids-out-of-poverty-minister-says.html>

## What problem are we trying to solve?

In debates around new basic income proposals, it's not only often unclear just what is being proposed, there is also a lack of consensus about exactly what problem we are trying to solve. Leaving aside those motivated by any opportunity to shrink the size of government and replace it with the market, people have raised basic income as a response to a range of different problems. As Samuel Hammond argues in *Foreign Policy*, some of those rationales are “contradictory on their face.”<sup>20</sup> It's worth understanding each of these concerns to understand whether a basic income is the best way to respond to them.

### Problem: Too many people cannot maintain a decent standard of living

One of the main arguments for basic income is to respond to the problem of people not having enough money to meet their needs – in other words, addressing poverty. But the shortfall that people face in having enough to make ends meet looks different depending on who we are talking about. For people who are working and facing stagnating wages that leave them struggling to make ends meet, a modest amount of support to augment their incomes might bridge that gap.<sup>21</sup> For people who rely on inadequate income support systems, it would take a much more significant boost to meet this goal.<sup>22</sup> Social assistance programs typically leave people well short of the poverty line.<sup>23</sup>

Basic income could theoretically send people enough money to bring them out of poverty.<sup>24</sup> The question is whether a single universal program is the best way to do that. If basic income were to come at the expense of existing programs, this problem could be worse for many low-income people.

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20 Hammond, Samuel. “When the Welfare State met the Flat Tax.” 16 June 2016. *Foreign Policy*. <http://foreignpolicy.com/2016/06/16/when-the-welfare-state-met-the-flat-tax/>

21 Hughes, 2016.

22 Sas, Jonathan. “Progressives and the Guaranteed Income Debate.” 14 March 2016. *The Broadbent Blog*. (Broadbent Institute). [http://www.broadbentinstitute.ca/jonathansas/progressives\\_guaranteed\\_income\\_debate](http://www.broadbentinstitute.ca/jonathansas/progressives_guaranteed_income_debate)

23 Tiessen, Kaylie. Ontario's Social Assistance Poverty Gap. 9 May 2016. *Canadian Centre for Policy Alternatives*. <https://www.policyalternatives.ca/publications/reports/ontarios-social-assistance-poverty-gap>

24 Stern, Andy. “Moving towards a universal basic income.” 12 April 2016. *Jobs and Development Blog*. World Bank <http://blogs.worldbank.org/jobs/moving-towards-universal-basic-income>

## Problem: The social safety net is tangled and filled with holes

For some, the problem to be solved by universal basic income policies is that our social safety net is riddled with complications that allow some people to slip through while trapping others in poverty with “welfare wall” effects.<sup>25</sup> Our approach to social policy reflects a collection of “clumsy but temporarily effective” responses to problems as they arise, each justifiable in their own context, but taken together, combine for the kind of “gerry-rigged, opaque and complicated” approach that Steven Teles calls a “kludgeocracy.”<sup>26</sup> Basic income is a chance to replace the red tape<sup>27</sup> and stigma<sup>28</sup> with a simpler approach that can support people in a way that respects their dignity and agency. The related libertarian version of this problem is that our current system sees government play too large a role in the economy and people’s lives, and that we would be better off giving that money directly to individuals to meet their needs in the market, saving money on administration of programs in the process, money that could be redirected to people in need.<sup>29</sup>

Replacing a patchwork of responses to particular needs with a universal income approach would also respond to the gaps that have emerged as our safety net has failed to keep pace with economic and social transformations.<sup>30</sup>

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- 25 Torjman, Sherri and Battle, Ken. “Breaking Down the Welfare Wall.” July 1993. Caledon Institute of Social Policy. <http://www.caledoninst.org/Publications/PDF/488ENG.pdf>
- 26 Teles, Steven. “Kludgeocracy: The American Way of Policy.” 10 December 2012. New America Foundation. <https://www.newamerica.org/economic-growth/policy-papers/kludgeocracy-the-american-way-of-policy/>
- 27 Zon, Noah. “Less red tape for business, why not people?” June 2016. Maytree. <http://maytree.com/policy-and-insights/opinion/less-red-tape-for-business-why-not-people.html>
- 28 Calnitsky, David. “Basic income: social assistance without the stigma.” 30 May 2016. Toronto Star. <https://www.thestar.com/opinion/commentary/2016/05/30/basic-income-social-assistance-without-the-stigma.html>
- 29 Zwolinsky, Matt. “The Pragmatic Libertarian Case for a Basic Income Guarantee.” 4 August 2014. Cato Unbound. <http://www.cato-unbound.org/2014/08/04/matt-zwolinski/pragmatic-libertarian-case-basic-income-guarantee>
- 30 Granofsky, Thomas, Corak, Miles, Johal, Sunil and Zon, Noah. “Renewing Canada’s Social Architecture.” May 2015. Mowat Centre. <http://social-architecture.ca/>

Rather than creating a set of targeted programs, the flexibility of an all-purpose universal basic income would allow it to respond to challenges like the financial burden of unpaid caregiving<sup>31</sup> or the high costs of child care<sup>32</sup> that more and more families need to rely on.

The overall approach of a basic income could definitely improve on the complicated set of programs we have today. However, not all of the problems that we try to address through the social safety net can be easily addressed by providing everyone with a little more money. Would a basic income account for people's different needs, including those such as drug coverage, that are not well-served by the market? The more adjustments that we make for these complexities, the more a basic income starts to look like our current system, for better or for worse.

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31 Hylmar, Stephanie. "A Profile of Family Caregivers in Ontario." 2016. The Change Foundation. <http://www.changefoundation.ca/profile-of-family-caregivers-announcement/>

32 Johal, Sunil and Granofsky, Thomas. "Growing Pains: Childcare in Canada." June 2015. Mowat Centre. <http://social-architecture.ca/growing-pains-childcare-in-canada/>

## Problem: The risk of weak labour markets

A combination of economists and technologists see basic income as a way to respond to an expected wave of automation enabled by robotics and artificial intelligence.<sup>33</sup> In other words, the robots are coming for our jobs. A recent report from the Brookfield Institute found that 42 per cent of Canadian jobs are at high risk of automation just taking into account existing technology.<sup>34</sup> This problem is regularly cited by advocates who say that we need basic income policies to compensate for the risk that these jobs would not be replaced by a new set of emerging jobs in industries that we are not yet aware of.<sup>35</sup> In this scenario, automation allows us to continue to create a great deal of wealth and value as a society, while needing fewer workers to do so. In this scenario, basic income policies are how we make sure everyone can have a decent standard of living, even if it is harder to achieve that through employment.

Others point to the challenges today in the quality and quantity of full-time employment. A report from Policy Horizons Canada (a federal government think tank) projects that virtual work and freelancing are likely to become a feature of most Canadians' work lives, bringing both flexibility and instability.<sup>36</sup> Basic income is seen as a way to buffer against the precarity of work, including both the low level and insecurity of income from part-time and contract employment.<sup>37</sup>

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- 33 Matthews, Dylan. "Some residents of Oakland are about to get a basic income." 1 June 2016. Vox. <http://www.vox.com/2016/1/28/10860830/y-combinator-basic-income>
- 34 Lamb, Creig. "The Talented Mr. Robot." 14 June 2016. Brookfield Institute for Innovation and Entrepreneurship. <http://brookfieldinstitute.ca/research-analysis/automation/>
- 35 See for example: Bolton, Doug. "Basic income may be needed to combat robot-induced unemployment, leading AI expert says." 19 February 2016. The Independent. <http://www.independent.co.uk/life-style/gadgets-and-tech/news/basic-income-artificial-intelligence-ai-robots-automation-moshe-vardi-a6884086.html>; Freedman, David. "Basic Income: A sellout of the American Dream." 13 June 2016. MIT Technology Review. <https://www.technologyreview.com/s/601499/basic-income-a-sellout-of-the-american-dream/>; Fingas, Jon. "Y Combinator basic income makes up for jobs lost in tech." 1 June 2016. Engadget. <https://www.engadget.com/2016/06/01/y-combinator-basic-income-experiment/>; Stern, Andy. "The Case for Unions to Support a Universal Basic Income." 27 June 2016. The Atlantic. <http://www.theatlantic.com/business/archive/2016/06/unions-and-ubi/488951/>
- 36 Policy Horizons Canada. "Canada and the Changing Nature of Work." May 2016. <http://horizons.gc.ca/eng/content/canada-and-changing-nature-work>
- 37 Bueckert, Kate. "Waterloo region committee support call for guaranteed basic income national discussion." 14 June 2016. CBC News. <http://www.cbc.ca/news/canada/kitchener-waterloo/guaranteed-basic-income-waterloo-region-1.3634176>; Citizens Advice. "The Importance of Income Security." [https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/The%20Importance%20of%20Income%20Security%20\(Final\).pdf](https://www.citizensadvice.org.uk/Global/CitizensAdvice/welfare%20publications/The%20Importance%20of%20Income%20Security%20(Final).pdf)

This is the most ambiguous of the big challenges for which basic income is presented as a big solution. The post-work future is not a foregone conclusion. If it is, it's not clear that a modest government cheque would be a real replacement for work. However, this justification does help raise some important questions that are relevant today, such as how a basic income would influence people's participation in the workforce, and how it would affect inequality.

## Would a basic income solve these problems?

Each of these problems deserves our attention. The question is whether a universal basic income could solve them, and whether it's the best way forward.

### Maintaining a decent standard of living

Giving people a bit more money may not be a panacea, but we do know it helps. Providing people with low incomes with more money – even relatively modest amounts – through simple cash transfers has been shown to have measurable improvements for people's lives. In Manitoba, a small cash benefit to low-income pregnant women translated to healthier babies, as mothers could better afford necessities.<sup>38</sup> Cash child benefits make a big difference in the lives of low-income families, as money supports basic needs and investments in children's education.<sup>39</sup> Randomized controlled trials testing unconditional cash transfers in the developing world have also shown that simple transfers of money to low-income households have strong benefits.<sup>40</sup> When you give people who don't have enough money more of it, no strings attached, it gets used well.

It's not clear, however, that a universal basic income would be likely to put more money in the hands of people with the lowest incomes. It depends on the level that it's set at it, how it's designed, and what it would replace. A basic income of even \$800 per month (\$9,600 per year) would be at least a modest improvement for most single "employable" people in Canada over the meagre "welfare incomes"<sup>41</sup> that they get from provincial social assistance and federal and provincial tax credits – even more so if it were to come without the punitive rules of most social assistance programs. For others, losing other income supports (such as child benefits) or other benefits (such as extended health coverage) would quickly leave them worse off, even before taking into account the effects of higher taxes to pay for the program. This is particularly true if we look not just at income but at whether that income is sufficient to meet the costs of an acceptable

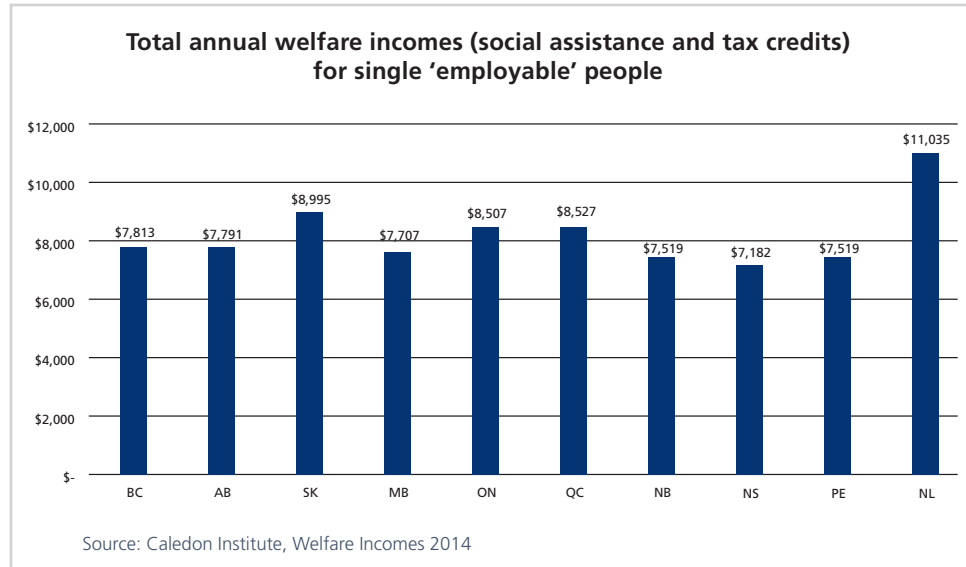
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38 Zafar, Amina and Birak, Christine. "\$81 per month buys a healthier baby." 12 May 2016. CBC News. <http://www.cbc.ca/news/health/healthy-baby-prenatal-income-benefit-1.3578029>

39 Stabile, Mark and Jones, Lauren. "The truth about Canada's low-income benefits: they work." 21 April 2015. The Globe and Mail. <http://www.theglobeandmail.com/opinion/the-truth-about-canadas-low-income-benefits-they-work/article24042813/>

40 Haushofer, Johannes and Shapiro, Jeremy. "The Short-term Impact of Unconditional Cash Transfers to the Poor: Experimental Evidence from Kenya." 25 April 2016. [https://www.princeton.edu/~joha/publications/Haushofer\\_Shapiro\\_UCT\\_2016.04.25.pdf](https://www.princeton.edu/~joha/publications/Haushofer_Shapiro_UCT_2016.04.25.pdf)

41 Tweddle, Anne, Battle, Ken and Torjman, Sherri. "Welfare in Canada, 2014." November 2015. Caledon Institute of Social Policy. <http://www.caledoninst.org/Publications/PDF/1086ENG.pdf>



standard of living.<sup>42</sup>

The biggest question about whether basic income would really allow people to maintain a decent standard of living comes down to just how much income the program would provide. From the information that we have to rely on, there is a real risk that a universal basic income could leave some of the poorest Canadians worse off, especially if some important existing supports are cancelled to pay for it.<sup>43</sup>

Take the Manitoba MINCOME experiment from the 1970s, which tested an income guarantee with a sample of Manitobans, including the town of Dauphin (population 12,000).<sup>44</sup> The guarantee was equivalent to about 60 per cent of the poverty line at the time (\$7,500 in 2016 dollars for a single person or \$23,500 for a family of five).<sup>45</sup> This is not enough on its own to allow people to maintain a decent standard of living. Any other income was clawed back at 50 cents on the dollar,<sup>46</sup> so that low-income people faced a very high effective tax rate, and a single person with the equivalent of \$15,000 in income (in today's dollars) would not get any support from the program. While this was an improvement on the welfare programs at

42 Notten, Geranda and Mendelson, Michael. "Using low income and material deprivation to monitor poverty reduction." July 2016. Caledon Institute of Social Policy. <http://www.caledoninst.org/Publications/PDF/1103ENG.pdf>

43 Greenstein, Robert. "Commentary: A Universal Basic Income May Sound Attractive, But, If It Occurred, Would Likelier Increase Poverty Than Reduce It." 31 May 2016. Center on Budget and Policy Priorities. <http://www.cbpp.org/poverty-and-opportunity/commentary-universal-basic-income-may-sound-attractive-but-if-it-occurred>

44 Forget, Evelyn L. "The Town with no Poverty." February 2011. [https://public.econ.duke.edu/~erw/197/forget-cea%20\(2\).pdf](https://public.econ.duke.edu/~erw/197/forget-cea%20(2).pdf)

45 Canadian Press. "Guaranteed income: Evolving technology, movement away from the 9-to-5 driving discussion." 17 April 2016. CBC News. <http://www.cbc.ca/news/business/guaranteed-income-back-in-vogue-1.3539948>

46 Forget, 2011.



the time, it would take more to guarantee a better standard of living for Canadians today.

In the mid-1990s, a federal government panel studied two other potential approaches that were ultimately not adopted (more on these below).<sup>47</sup> They found that in these cases, a basic income would have meaningful but modest effects on poverty. The more generous of the two approaches was projected to reduce the share of households living in poverty from 12.8 per cent to 9.7 per cent, while the more modest package would reduce the share to 11.4 percent. The study also found that while poverty would go down on aggregate, some people living in poverty would have been worse off if the federal government had followed through with one of these approaches to a basic income.

### **Overcoming the tangles and holes of the social safety net**

By nature, a universal basic income would help to make sure that people don't fall through the worst cracks of the existing safety net based on onerous eligibility requirements like limits on liquid assets.<sup>48</sup> It would theoretically also be more flexible to help people address a variety of needs, including those we haven't designed targeted programs for. How well it would do this, and whether it would offer a simple, user-friendly system to improve on our sometimes clumsy social safety net depends on the details. All but the most simplistic of basic income policies would tailor the level of support based on income, leaving in place at least some of the administration and the "welfare wall" effects. The more sensitive to individual situations that the policy gets – adjustments for local cost of living, additional support for persons with disabilities, responsiveness to changes in income or need – the more a basic income policy looks like what we have now, with similar strengths and weaknesses.

One of the common arguments for a basic income is to overcome the stigma of welfare for recipients, to improve their lives through social inclusion and to keep political support for the program. For the stigma on recipients, we don't need to introduce a new basic income. We can build on how we already deliver an increasing number of our programs – simple electronic funds transfers that no one other than the recipient needs to know about. As far as whether people are more likely to support assistance

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47 Government of Canada. "Improving Social Security in Canada — Guaranteed Annual Income: A Supplementary Paper." 1994. <http://www.canadiansocialresearch.net/ssrgai.htm>

48 Monsebraaten, Laurie. "Debilitating illness leaves Toronto man struggling to get by." 27 June 2016. Toronto Star. <https://www.thestar.com/news/gta/2016/06/27/debilitating-illness-leaves-toronto-man-struggling-to-get-by.html>

to people with low income if it's part of a universal program, the evidence is mixed, especially when we look at long-term trends.<sup>49</sup> Even then, a program with universal eligibility does not mean that every person needs to get the same thing – universal health care means that everyone has access to the treatment they need when they need it, not that they get the same treatment regardless of condition.

Our safety net is designed to address some needs that can't easily be addressed by cash alone. Some parts of the safety net are designed to replace income, such as Employment Insurance, pensions, and disability insurance programs. In each of these areas, we have seen some significant gaps emerge, leaving some people poorly covered. However, a basic income that provides, say, \$10,000 per year, would not be good insurance to replace income of \$50,000 in the case of job loss or disability. These particular gaps in the safety net would not be well-served by a basic income approach. If a universal basic income came at the expense of these other functions of the safety net, or programs that make sure that people can get medicine or access post-secondary education, then we could leave many people worse off.

### **Responding to weaker job markets**

There is no doubt that having a guaranteed minimum income would take some sting out of weaker labour markets. However, when compared against the challenges of precarious work or weak job markets, a basic income is a clumsy response.

Even with artificial intelligence, robotics, and driverless cars on the horizon, it's not clear that jobs are any more at risk from technological change than in the past. Fifty years ago, a 1964 U.S. blue ribbon commission appointed by President Johnson to look at automation, technology and jobs was concerned about the same risk and recommended a guaranteed minimum income as a response.<sup>50</sup> What followed was some of the strongest employment growth in modern history. There's a case that the trend of technology replacing jobs has in fact slowed down.<sup>51</sup>

While future challenges are difficult to predict, there are pressing challenges today that contribute to working poverty. One dimension of precarious

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49 Greenstein, 2016.

50 Autor, David. "Polanyi's Paradox and the Shape of Employment Growth." September 2014. <http://economics.mit.edu/files/9835>

51 Yglesias, Matt. "The Automation Myth." 27 July 2015. Vox. <http://www.vox.com/2015/7/27/9038829/automation-myth>

labour markets is a decreasing coverage by employers for health, dental and disability benefits.<sup>52</sup> Even if basic income policies were to provide enough cash, not all of these needs are easy for individuals to meet in the market. If a basic income did not include a response that made sure people were covered for these needs, then it could quickly leave people worse off.<sup>53</sup>

If we wanted to respond to the challenge of work becoming less secure and less well-paid, then we might be better off choosing a more targeted response designed for those problems. Specifically, we might invest more in the federal Working Income Tax Benefit, which is intended to boost the incomes of people in working poverty and provide an incentive to assistance recipients to move from welfare to work. We also should make Employment Insurance more responsive to the needs of contract and part-time workers to insure against dips in their incomes.

While this set of problems isn't exhaustive, it gives a good sense of the range of the problems that are identified for basic income to respond to. Just as important as what's on this list is what is missing. While many basic income proposals talk about providing a grant to every person regardless of their circumstances, it is not clear what problem would be addressed by giving these same grants to middle- and upper-income people, even if they might return large portions through higher tax rates.<sup>54</sup> There is no problem for which the solution is to give unconditional cash transfers to people with high incomes.

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52 Barnes, Steve, Abban Vanessa and Alexandra Weiss. "Low Wages, No Benefits: Expanding Access to Health Benefits for Low-Income Ontarians." February 2015. <http://www.wellesleyinstitute.com/wp-content/uploads/2015/02/Low-Wages-No-Benefits-Wellesley-Institute-Feb-2015.pdf>

53 Greenstein, 2016.

54 Painter, Anthony. "Why Should David Cameron Receive a Basic Income?" 30 March 2016. Medium. <https://medium.com/@anthonypainter/why-should-david-cameron-receive-a-basic-income-1da3bdb0eeca#.9y9j4d5ko>

## What would a basic income cost?

The cost of a basic income approach does not just depend on how the amount of the new cheques we would send people each month, it would depend just as much on what these cheques would replace and what else would happen with taxes and the economy as a result. These are complicated factors even with detailed proposals to consider, and much more so without any fleshed-out proposals.

We do know:

- There are some essential trade-offs between cost and generosity: Compared to current approaches, the Institute for Fiscal Studies in the U.K. says that we can expect a basic income guarantee to be “either a lot less generous or a lot more expensive.”<sup>55</sup>
- The very high price tag of the more expensive versions of the program comes from transferring cash to middle- and upper-income households. Even if those benefits are taxed back, the money is being moved back and forth in a “leaky bucket.”<sup>56</sup> A design that phases-out benefits to focus them on people with low incomes is significantly less expensive, and more efficient.<sup>57</sup>
- It is possible to replace some portion of existing social spending with a basic income, though it is difficult to replace too much without leaving people worse off. These potential savings come nowhere close to covering the cost of a basic income guarantee. Canadian governments currently spend about 4.6 per cent of GDP on income supports for working age adults.<sup>58</sup> To cover a \$10,000 per person basic income, The Economist estimated that it would take something in the realm of a further 12 per cent of GDP.<sup>59</sup>

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55 Harford, Tim. “Could an income for all provide the ultimate safety net?” 3 May 2016. <http://timharford.com/2016/05/could-an-income-for-all-provide-the-ultimate-safety-net/>

56 Hammond, Samuel. “Universal Basic Income is just a Negative Income Tax with a Leaky Bucket.” 9 June 2016. Niskanen Center. <https://niskanencenter.org/blog/universal-basic-income-is-just-a-negative-income-tax-with-a-leaky-bucket/>

57 Schirle, Tammy. “Universal benefits: are they worth it?” 4 May 2015. Policy Options. <http://policyoptions.irpp.org/2015/05/04/universal-benefits-are-they-worth-it/>

58 OECD Directorate for Employment, Labour and Social Affairs. “Social Expenditure Update.” November 2014. <http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-8pages.pdf>

59 “Universal basic income in the OECD.” 3 June 2016. The Economist. <http://www.economist.com/blogs/graphic-detail/2016/06/daily-chart-1?fsrc=scn/tw/te/bl/ed/universalbasicincomeintheoecd>

Based on two different estimates, we can get an overall sense of what a Canadian basic income guarantee might cost.

In 1994, the federal government published a discussion paper as part of its social security reform work that modeled the costs of two versions of a new Guaranteed Annual Income program for working age adults.<sup>60</sup> For context, Canada's GDP (in 2016 dollars) is about \$2 trillion, and the federal government expects to spend \$317 billion this year, \$26 billion of which will go to interest payments.

- The first option was a universal grant that would provide everyone with the same amount (offset by higher taxes). The grant would provide \$7,000 (about \$10,600 in today's dollars) to all adults, and half that amount for children. The sticker price for this version was \$146 billion (about \$221 billion in today's dollars). If this grant was combined with eliminating provincial social assistance and most tax benefits, and limiting eligibility for Employment Insurance, the net cost would be reduced to \$96 billion (\$145 billion in today's dollars). These changes would leave a number of people worse off.
- The second option was a more modest income top-up style approach to supplement the incomes of lower-income Canadians. This program would provide a \$4,500 top-up for adults and \$3,000 for children. These more modest benefits would be phased out as income rose, at rates ranging from 15 cents on each dollar to 27 cents, depending on family size and structure. This would cost \$37 billion in 1994 (\$56 billion in today's dollars), and would have been cost neutral if combined with eliminating social assistance and tax benefits and limiting Employment Insurance.

While these estimates would look fairly different today, given both the changing face of poverty and the many changes to tax credits and income support programs in the past two decades, they do give a sense of the general magnitude of costs.

Kevin Milligan of UBC did a cost analysis of some basic income guarantee options to give a general idea of the level of spending involved.<sup>61</sup> He

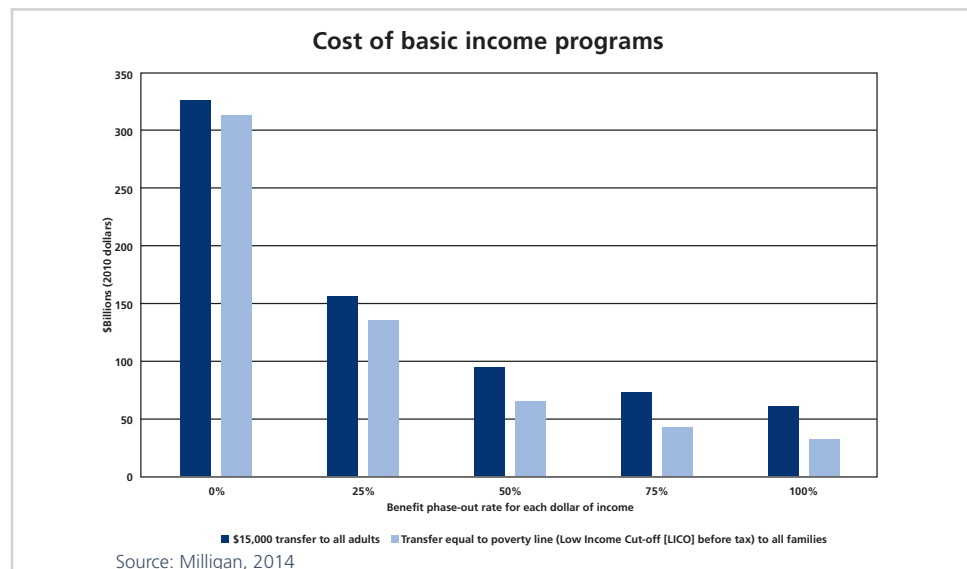
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60 Government of Canada, 1994.

61 Dr. Milligan's cost analysis was published on January 17, 2014 and is available here: [https://docs.google.com/spreadsheets/d/1iDbOimKPxTsAwoP9rCAU13B\\_wtew9roqeGX8khHbbuc/edit?pref=2&pli=1#gid=0](https://docs.google.com/spreadsheets/d/1iDbOimKPxTsAwoP9rCAU13B_wtew9roqeGX8khHbbuc/edit?pref=2&pli=1#gid=0)

looked at two different variations of basic income – one that would give a guaranteed income of \$15,000 to each adult, and one that guaranteed each family an income that would bring them at least to the poverty line. If you let people keep the entire payment regardless of their income, this basic income would cost in excess of \$300 billion (more than the entire federal budget) – even after replacing social assistance programs.

When we look at how basic income programs are designed, there are trade-offs between making it more affordable and making it more effective. If the basic income payments are clawed back sharply as people earn income, the cost of the program goes down significantly. However, high phase out rates effectively hit people with incredibly high effective tax rates that help to build a welfare wall. Avoiding the welfare wall makes for more expensive programs.



Most proposals for basic income acknowledge the need for substantial changes to the tax system in order to pay for it. What is clear from these cost estimates is that the scope of the changes necessary would have to be substantial. Any consideration of the benefits of a basic income need to be considered alongside the costs of the plans to pay for it, including the tax rates faced by low-income Canadians, the loss of other credits and services, and the overall economic impact. There is no easy way to pay for this – even substantial tax increases for higher income Canadians would not come close to paying for a substantial universal basic income.

## Conclusion

With the discussion about basic income guarantees heating up in Canada and elsewhere, it's worth grounding ourselves in what we are trying to achieve before we size up largely hypothetical policies. While there are some sharp political differences between some of the camps arguing for universal basic income, there is also some important common ground.

For example, it is good news to see broad support for the goal of improving the flexibility and responsiveness of our social safety net. Many of our income support programs are burdened by a tangle of arcane regulations and punitive rules that treat low-income people poorly and trap them in poverty.<sup>62</sup> Many involved in the basic income debate have also emphasized that we are falling short today of ensuring that people are guaranteed a dignified existence.

If we really want to solve these problems, we should not fixate on a basic income policy. When we compare against the strengths and weaknesses of our current system, we can see that most proposals for a basic income are both prohibitively expensive and leave many people with very low incomes worse off. That's not a good basis for a massive transformation of social policy.

That doesn't mean that we shouldn't look to build guaranteed *incomes*.<sup>63</sup> The guaranteed income systems that we now have in place for children and seniors are some of the most important tools we have in Canada to reduce poverty.

There is room to build on those systems and improve other programs to have a more effective and connected approach to income security.<sup>64</sup> The way that we reformed income support for children in the 1990s is a good example of a more incremental approach towards guaranteed incomes.<sup>65</sup> We moved support for low-income children out of the social assistance system, where it was subject to punitive and counter-productive rules, to a simpler guaranteed income program for children that is now at the heart of the Canada Child Benefit.

It's worth looking at which other kinds of support – including both cash and in-kind benefits like prescription drug coverage – can be made more broadly available to low-income Canadians that need it. Even within

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62 Zon, 2016.

63 Battle, 2015a.

64 Stapleton, John. "Income Security for Working Age Adults in Canada: Let's Consider the Model that's Right Under our Nose." November 2008. Metcalf Foundation. <http://metcalfoundation.com/wp-content/uploads/2011/05/income-security-for-adults.pdf>

65 Battle, 2015b.

financial support, we should also be looking beyond income support to include programs like the Canada Learning Bond that help low-income people build assets that provide some financial security.<sup>66</sup>

The fact that we have a variety of different policies and programs is one of the core strengths of our social safety net, not a failing to overcome. People in different situations, of different ages, and different parts of the country have different needs. A single transfer is alluringly simple, but one size does not fit all. A diverse system of policies and programs is better suited to our diverse needs and arguably more politically resilient in tougher times than a single costly program that is not tied to any particular group or need. We would be better off looking at different policies designed with particular problems in mind – expanding the Working Income Tax Benefit, reforming Employment Insurance, building better support for people with disabilities – than trying to address all of these different needs with a single tool.

Where we have seen success in Canada and elsewhere is in income guarantees and income top-ups that move people out of poverty. The federal government has made a transformative move to guarantee a minimum income for families with the Canada Child Benefit. It also has boosted the income guarantee for seniors through an add-on to the Guaranteed Income Supplement. There are many good reasons that we have two different programs there for different groups with different needs. As the Ontario government develops its pilot project and other governments explore basic income, they would do well to keep in mind this approach of different solutions to match different problems.

It's great to see the enthusiasm that the basic income discussion is bringing to the goal of ending poverty and improving people's lives. At the risk of spoiling the party, it's important to be clear just what we're talking about. A simple universal program has a natural appeal. In practice, there is a real risk that basic income could worsen poverty, rather than eliminate it.

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<sup>66</sup> Nares, Peter and Robson, Jennifer. "Research Brief: Poverty is About Assets as Well as Income." 2003. Policy Horizons Canada. <http://www.horizons.gc.ca/eng/content/research-brief-poverty-about-assets-well-income>



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