



Position Statement: Basic Income Guarantee

GUELPH & WELLINGTON TASK FORCE FOR POVERTY ELIMINATION / APRIL 2016

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It is the position of the Guelph & Wellington Task Force for Poverty Elimination that poverty is an urgent human rights and social justice issue for local, provincial, and federal governments. A Basic Income Guarantee (BIG) is required as part of a coherent strategy to effectively eliminate poverty.

Introduction

The Guelph & Wellington Task Force for Poverty Elimination believes that the perpetuation of poverty is both avoidable and untenable, particularly in a country as wealthy as Canada. The social and economic consequences of Canada's persistent failure to eradicate poverty is well documented. The waste of human potential, as well as the costs to both current and future generations, calls on all of us to make poverty an urgent human rights and social justice priority for local, provincial and federal governments. It is the position of the Poverty Task Force that a Basic Income Guarantee (BIG) is required as a foundational piece of any coherent strategy to effectively eliminate poverty.

What is a Basic Income Guarantee?

A Basic Income Guarantee (BIG), also known as a Guaranteed Annual Income, is an unconditional cash transfer from government to individuals or families to provide a minimum annual income (Lammam, 2015). The Basic Income Canada Network asserts that a BIG “ensures everyone an income sufficient to meet basic needs and live with dignity, regardless of work status” (2015).

Why is a Basic Income Guarantee necessary?

A Basic Income Guarantee (BIG) has the potential to eliminate poverty in Canada. Based on the Low-Income Measure After-Tax (LIM-AT), 4.6 million people in Canada, or 13.8% of the population, lived in poverty in 2013 (Statistics Canada, 2015). Rates were slightly higher in Ontario, where 14.6% of Ontarians lived in low income (Statistics Canada, 2015). While there are social insurance and assistance programs aimed to support those in financial need, some fail to lift recipients out of poverty. For example, while Ontario Works (OW) is intended to help people who are in temporary financial need, its benefit rates are often too low for families and individuals to make ends meet. For example, a single person on OW receives a maximum of \$681 per month (includes basic

needs allowance and maximum shelter allowance), or \$8,172 annually. This falls nearly 60% below the LIM-AT threshold of \$19,460 per year.

While the provincial government has made incremental increases to social assistance benefit rates in the past few years, there are examples of other benefits that have had a more direct and immediate impact on those living in poverty. The Guaranteed Income Supplement (GIS) provides a monthly non-taxable benefit to Old Age Security (OAS) pension recipients who have low income and are living in Canada (Government of Canada, 2015). The introduction of this benefit, along with the Old Age Security (OAS) program and the Canada Pension Plan (CPP), has led to Canada having one of the lowest rates of elder poverty in world (Emery, 2013).

Aside from social insurance and benefit programs, many Canadians struggle while living in poverty despite being employed. At \$11.25 per hour, an individual making minimum wage in Ontario working full-time throughout the year (35 hours per week, 50 weeks per year) will bring home \$19,688 annually (before-tax). This falls below the Low-Income Measure Before-Tax (LIM-BT) threshold of \$22,160. While the province of Ontario continues to make commitments to increase the minimum wage in a bid to lift people out of poverty (the rate will jump to \$11.40 per hour as of October 1, 2016), it continues to fall well below the living wage of \$16.50 per hour for Guelph-Wellington (Ellery, 2015).

In addition to low wages, the rise of precarious employment has resulted in real implications for economic well-being. Recent research suggests that 20% of those working in Canada are in precarious forms of employment, while another 20% are in employment that shares at least some of the characteristics of precarious employment. This includes full-time employees who receive a wage, but no benefits, workers who may work variable hours, and workers who believe they are unlikely to be employed by the same firm a year from now (Lewchuk, 2013).

Inadequate social assistance benefits, low minimum wage rates, and precarious employment are just some of the factors that are contributing to the spread of poverty, which is having negative effects on the overall health and wellbeing of Canadians. Research continues to demonstrate that income is perhaps the most important social determinant of health, noting that level of income “shapes overall living conditions, affects psychological functioning, and influences health-related behaviours” (Mikkonen, 2010).

The cost of poverty in Canada is also a point of consideration. It is estimated that the financial cost of poverty in Canada is between \$72.5 billion and \$86.1 billion per year (Citizens for Public Justice). This includes the cost of poverty on the Canadian healthcare system, social assistance spending, the Canada Social Transfer, the criminal justice system, and other factors (Canada Without Poverty, n.d.).

It is the position of the PTF that the introduction of a BIG is an integral part of any effective approach to eliminating poverty in Canada.

What are the arguments for and against a Basic Income Guarantee?

Arguments for a Basic Income Guarantee

Proponents reason that a BIG offers a number of possible economic, health and social benefits. In terms of **economic benefits**, perhaps the most appealing advantage of a BIG is its potential to reduce (and perhaps even eliminate) poverty (Young, 2009). Further, it is proposed that a BIG “can buffer the effects of precarious employment by providing a form of ‘disaster insurance’ that protects people from slipping into poverty during challenging times” (Hyndman, 2015). Finally, a BIG could allow for streamlining some existing income support programs, resulting in efficiencies related to a reduction in public administration and intervention (Hyndman, 2015).

A number of **health benefits** associated with the introduction of a BIG are also highly likely. Research consistently demonstrates that a cash-based system like a BIG improves health outcomes for participants. A study of elderly individuals moving from social assistance programs to old age benefits (a cash transfer) reduced food insecurity by 50 percent. In addition, self-reporting of poor/fair physical health and mental health declined by 20 percent and 39 percent respectively (Emery, 2013).

Research also clearly demonstrates that income is an important and influential social determinant of health. Canadians with low income use health services more frequently, are seriously sick or injured more often, and are more likely to suffer from chronic conditions (Wellington-Dufferin-Guelph Public Health, 2013). It is reasoned that by reducing income inequalities, a BIG would have important health-promoting effects at the individual level and could contribute to health improvements across the population (Hyndman, 2015).

Finally, there are several potential **social benefits** related to the implementation of a BIG. Analysis of a guaranteed annual income experiment in Dauphin, Manitoba in the 1970s found that grade 12 enrolment increased (Forget, 2011). Other researchers argue that a BIG could increase gender equality (Regehr, 2014), reduce crime rates (Basic Income Canada Network, 2015), and promotes greater equality of opportunity, or economic democracy (Hyndman, 2015).

Arguments against a Basic Income Guarantee

While it is often recognized that the conceivable challenges associated with a BIG are related to its design, they are still worthy of consideration. Perhaps the most dominant argument against a BIG is the suggestion that it is detrimental to work incentives. Lammam and MacIntyre (2015) claim that people are less likely to work if the cost

of not working decreases and suggest that a BIG can discourage work by reducing the marginal reward of earning more income.

Other arguments suggest that a BIG could “allow employers to ignore their responsibility to provide a living wage and reasonable benefits for work performed” (Citizens for Public Justice, 2008). Lammam and MacIntyre (2015) argue that “replacing the existing Canadian income support system would be such a challenging process that success seems unlikely.” Finally, hesitations associated with implementing a BIG are often tied to the potential high costs of providing income to those living in poverty (Pasma, 2009).

What is the position of the Poverty Task Force on a Basic Income Guarantee?

Based on analysis of readily available research and debate over approaches and issues, the Poverty Task Force (PTF) has developed an informed position on a Basic Income Guarantee (BIG). **It is the position of the PTF that poverty is an urgent human rights and social justice issue for local, provincial, and federal governments. A Basic Income Guarantee (BIG) is required to effectively eliminate poverty.** While generally supportive of any model of a BIG delivered through the tax system, based on a review of the two most-cited basic models – the Negative Income Tax (NIT) model and the Universal Demogrant (UD) model¹ - the PTF finds the NIT model the preferable approach. This is based primarily on the fact that the design of the NIT model more clearly maintains work incentives.

What principles should a Basic Income Guarantee be based on?

Regardless of the model that is implemented, the PTF advocates that a BIG be based on the following principles:

1. No household living in Canada should be living below the LIM-AT

The PTF advocates that the benefit level of a BIG be set above the LIM-AT threshold (Table 1).

Household size	Low-Income Measure After-tax threshold
1 person	\$20,933
2 person	\$29,604
3 person	\$36,257
4 person	\$41,866
5 person	\$46,808
6 person	\$51,275
7 person	\$55,384

2. Conditions attached to receiving a BIG should not be tied to paid employment.

¹ A description of the NIT model and UD model are available in Appendix 1.

Most BIG proposals are conditional only in the sense that they are targeted to low income earners (Citizens for Public Justice, 2008). However, some proposals advocate a participation condition, such as being engaged in paid work or doing some activity that is of social utility, while other proposals require participants to be “available” for employment (Pasma, 2009). The PTF argues that stringent requirements, particularly those tied to employment, can prevent a BIG from being an actual guarantee, can be administratively demanding, and can force individuals to take jobs which they are not suited.

3. A BIG design should maintain work incentives.

Analysis of the Negative Income Tax (NIT) model for a BIG demonstrates that it maintains work incentive, since it only reduced as additional income is earned, rather than eliminated. The example in Figure 1 illustrates how a single person can increase total income by increasing income from work, while still receiving the BIG.



Figure 1: Negative Income Tax Model: Family of Four example.

4. A BIG should be administered through the tax system.

A review of income support programs demonstrates that the current system is already set up to manage cash transfers from government to individuals or families. This is echoed by the Government of Canada in a 1994 report which states, “that some of ideas the underlying a Guaranteed Annual Income and the mechanisms for implementing it have already had a major impact on Canadian income security programs” (Government of Canada, 1994). Examples of this include the Guaranteed Income Supplement (GIS) and the Universal Child Care Benefit (UCCB). Administering a BIG through the tax system would result in efficiencies related to a reduction in public administration and intervention (Hyndman, 2015).

5. A BIG should build on benefit programs that are already working.

While there are a growing number of proposals outlining how a BIG should be designed and implemented, it is recommended that a BIG should review and build on similar programs that are already working well in Canada. This includes the Guaranteed Income Supplement and the Canada Child Tax Benefit, both of which are non-taxable and income-tested to target those living in low-income.

6. A BIG should find efficiencies within the current system.

A key feature of a BIG is replacing some or all aspects of the existing income support system. In a paper for the Fraser Institute, authors Lammam and MacIntyre (2015) offer “a preliminary look at the income support system to contextualize what might be replaced by GAI.” This includes spending on Federal programs, such as Old Age Security, Employment Insurance, Child Tax Benefit, and Universal Child Care Benefit. At a provincial level in Ontario, they look at social services, such as Ontario Works.

The PTF calls on:

- Municipal governments to urge provincial and federal governments to prioritize the design and implementation of a Basic Income Guarantee.
- The Government of Ontario to consult and work in partnership with key stakeholders, including community-based anti-poverty initiatives like the Poverty Task Force, to design and implement a Basic Income Guarantee pilot project as committed to in the 2016 Ontario Budget.
- The Government of Canada to expedite investigation of a Basic Income Guarantee as part of a National Poverty Strategy.
- Social and health service providers, community organizations, local businesses, the education sector, faith-based organizations, and emergency services to become aware of and promote a Basic Income Guarantee and the principles it is based on.
- Individuals to contact or meet with local politicians at all levels of government about their concerns with poverty and the potential benefits of a Basic Income Guarantee.

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Appendix 1 – Description of two basic models of a Basic Income Guarantee

There are two basic models of a BIG – the **Negative Income Tax (NIT) model** and the **Universal Demogrant (UD) model**.

The **NIT model** consists of three basic elements: the benefit level, the reduction rate, and the break even income level.

- The **benefit level** is the maximum guarantee for each family, and varies by family size and composition.
- The **reduction rate** is applied when a family has sources of income other than then the BIG. This means that the benefit amount decreases as other income is earned.
- The **break even income level** is the maximum income level at which NIT benefits can be received.

In addition to reducing poverty, there are two main strengths of the NIT model. First, it is suggested that the NIT model maintains work incentive, since it is only reduced as additional income is earned, rather than eliminated. Second, the NIT model is targeted, meaning that only those below a certain income level receive any benefit. As a result, the NIT model comes at a lower cost to government since fewer people are receiving the benefit (Pasma, 2009). Critics, however, note that the since the benefit is still received only by the poor, that it does not go far enough in addressing stigma (Pasma, 2009).

The **UD model** involves a tax-free, regular payment to every citizen, while income from all other sources is taxable. In other words, total disposable income would equal the UD plus after-tax income from other sources (Government of Canada, 1994). The UD has no reduction rate or break even income level. Non-UD income is generally taxed at a rate higher than current income taxes, resulting in those with higher incomes paying the benefit amount back through their taxes (Pasma, 2009).

Like the NIT model, the UD model has a number of strengths in addition to reducing poverty. Since it is a universal benefit, it is seen as non-stigmatizing, is expected to have a positive impact on social cohesion, and avoids the problem of low take-up (Pasma, 2009).

Regardless of the model that is supported, a BIG's overall impact on poverty reduction is determined by conditionality, the benefit level, and tax rates (Citizens for Public Justice, 2008).

Most BIG proposals are **conditional** only in the sense that they are targeted to low income earners (Citizens for Public Justice, 2008). However, some proposals advocate a participation condition (engaged in paid work or doing some activity that is of social utility, while other proposals require participants to be "available" for employment (Pasma, 2009).

Most discussion about the **benefit level** in BIG proposals focus on whether it should fall above or below the poverty rate. Those that assume people will not work unless they are forced to by economic circumstances argue that a lower benefit rate will help retain work incentive (Pasma, 2009).

In terms of the **tax rate** applied, it is argued that marginal tax rates could negate the impact of a BIG, resulting in an increase to poverty, rather than a reduction (Pasma, 2009). A flat tax rate “may ensure that lower-middle income earners are harder hit by a guaranteed income than high income earners, resulting in a redistributive effect that benefits those living in poverty, but not those only slightly above the poverty level” (Pasma, 2009).