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Basic Income Guarantee: What and How

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What Good Could We Accomplish With a Basic Income Guarantee and How Could We Put it in Place?

There has been a lot of discussion about the need for a basic income of some form, in Canada as well as several other countries. Many proponents of reform call it a Basic Income Guarantee (BIG), and it seems that several governments are considering it. I have already gone on record suggesting that a pilot project would most likely serve to defer such a reform until a time when the political consensus to improve things has passed. Not that we cannot experiment and learn and adjust as we go. Just that picking out a few communities and implementing a pilot is not the way to do it. If an experiment is the best we can do, let's at least pick out a large national random sample of low and modest income people and try it out on them.

But really, this is getting ahead of ourselves. Not only is there no consensus on what a basic income program should look like, there is none on what it should accomplish. Some see it as a way to eliminate poverty and offset income inequality; others see a way to collapse the existing social program structure into a single program and save money. The Fraser Institute has published a very useful report on all of the obstacles and pitfalls of implementing a guaranteed income program. It will serve as a good checklist of issues that a major income security reform needs to deal with. The problems that it poses are real, including its over-riding focus on the potential work-discouraging effect of guaranteed, no-strings-attached income. (In my view it would not be the discouragement of work that is the big issue as much as the potential to combine a basic income with activity in the informal or underground economy. So we need to design it with that in mind.) It is also likely that large-scale savings on administration of the existing mess of programs and rules will not be accomplished in the short term, for the reasons it cites; although integration of income-related transfers could certainly be implemented in an orderly way.

So let's step back a bit and ask ourselves what we want to accomplish and then work on the thorny question of how to achieve it. For me, there are bad things in the present system which I would like to see changed. And, there are challenges in the evolving economy for which I think we need some new policy tools.

The bad things ...

Lets start with with unattached people. Statscan tells us that about a third of unattached men, and 38% of unattached women, have incomes below the poverty line. After tax and transfers the numbers for both are around 27%. Many of these people are working in marginal jobs. Some of them don't have needed

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skills or are displaced from an economy that no longer needs their skills, or they have been incarcerated. Employment insurance is not enough and it runs out.

Some are left with social assistance. Provincial governments give people who have no job and no source of income, maybe \$600 a month. They have to get rid of some assets that might help them to bounce back. They have to be flat broke, hit bottom and lost hope. When they are approved they are ensnared by rules which reduce their assistance if they find significant means to supplement it. If they have major disabilities they can maybe get \$900 a month. This requires proving that they have really no, or very little, capacity to earn. So really, who can live in Canadian society, on this amount of money? Pay for an apartment, pay electricity, get a cellphone and internet access, buy a buss pass, buy food and essentials of living, pay for a bank account, buy insurance, buy medications or at least the co-pay charges ... Really? On \$600 or \$900 a month with severe disabilities? And people with no money are vulnerable. A stolen bicycle, a lost bus pass, a dead cellphone, a cold or flu, a minor injury – anything can basically disable them because they have no reserves.

A guarantee of a right to live in dignity is not provided in Canada, despite the Universal Declaration of Human Rights. What we do is give people an inadequate amount of money and turn our eyes away knowing that they will have to beg, borrow, cheat, work under the table or engage in illegal activity, to survive. We know that. We know that they are trapped by the tiny bit of security they are given. And we talk about them as people who manipulate our system, and live on entitlements at the expense of the rest of us.

When they have children we treat them a bit better. We don't like to see children deprived of a childhood so we help a bit more. But young lone parents face a lifelong struggle if they remain on their own. And individuals on the margins of society are well and truly on their own. Some figure it out and do ok, but they are still underground. And the odds are that their children will be less healthy and less able to advance their lot and contribute to society as they grow up.

What about the homeless? The really down and out population. We seem to forget that before 1980 we had very few homeless people in Canada. We would go to other countries and be shocked that there were people begging in the streets. When Canadian governments made the humanitarian decision not to segregate vulnerable people in institutions but to favour their integration ("normalization") in communities, they did not provide the resources necessary to support independent living. Caring communities did respond. Thousands of volunteers and community organizations mobilized to develop shelters in church basements, soup kitchens, food banks. Without the resources that is about all they could do. A noble effort but wrong approach which perpetuated a shameful situation. The money saved from social service budgets is now spent in hospital emergency wards, ambulances, police patrols, the justice system, and social assistance. Those programs marginalize people. And even with some interesting pilot projects we are not even in sight of ending homelessness.

Our aboriginal people have not caught up. The gap is still big. Their educational levels are improving but they are not enjoying a Canadian lifestyle. They are too often still isolated, marginalized. They are highly represented in the social assistance, homeless and incarcerated populations. Nearly 40% of indigenous children are in families living below the poverty line. (Campaign 2000) They are a great potential economic and cultural resource. And with a retiring baby boom our economy needs young and well-trained workers. But they and we are missing the full benefits of their contributions. This is a huge legacy issue which we have been unable to overcome. The current government has promised to close the gap in education and health but accelerating the process will require collaboration of governments and communities.

People without employment skills, without support from an affluent family, with addictions or criminal records, are an underclass. We could bring people like that into mainstream society. It is not rocket science. They need help. They need to get out of a culture of poverty. A Basic Income Guarantee could help. It would not solve all problems. But it would help and it could free up social service human resources to provide fuller service to the most vulnerable and most at risk.

What about the working poor and the near-poor? Most of our poor do try to work, and the economy provides lots of underpaid labour opportunities (ULO's). People call them jobs. Many families hold multiple marginal jobs. They try to raise their families on low earnings. We also help them. The Canada Child Benefit has been ramped up and is going to make a difference for families with children.

Low wage workers receive the Working Income Tax Credit and the G/HST tax credit. But the amounts are very modest. In the nineties US President Clinton became famous for deciding to "end welfare as we know it" by cutting federal transfers for welfare. But there was less attention to his doubling of the earned income tax credit. People were forced off welfare but at least when they worked they received substantial assistance. In Canada at the same time, the federal government decided to chop social assistance transfers to provinces. It also decimated unemployment insurance. Ensuing provincial cuts to benefits did force more people to take low level jobs. That was helped by a recovering economy, and social assistance caseloads fell dramatically in many cities. But the people didn't get out of poverty. Poverty rates declined a bit as they do after every recession, but then they levelled off again. Support for low income workers remains pathetically low. For the most part they do not get housing assistance. They don't have health and disability and dental insurance. They struggle to keep their heads above water in a rich world.

We have made great advances in education. But even with increased education levels of our youth, and our labour force, modest and middle income people are falling behind.

... median earnings of individuals working full time on a full- year basis barely increased between 1980 and 2005. Adjusting for inflation, annual earnings increased from \$41,348 to \$41,401 (in 2005 constant dollars), a mere \$53 over 25 years. Over the same time period, labour productivity in Canada rose 37.4 per cent. If median real earnings had grown at the same rate as labour productivity, the median Canadian full-time full-year worker would have earned \$56,826 in 2005, considerably more than the actual \$41,401. ...This divergence can be explained by four factors: measurement issues associated with wages, an increase in earnings inequality, a decline in labour's terms of trade, and a decline in labour's share of national income.

For more info: *The Relationship between Labour Productivity and Real Wage Growth in Canada and OECD Countries*, CSLS Research Report No. 2008-8 Andrew Sharpe, Jean-François Arsenault, and Peter Harrison

Governments are of course aware of these trends, and various supplemental benefits-in-kind and financial credits have been put in place to help specific groups. Each one has to be very carefully designed to ensure that the intended benefits are delivered but that they are reduced with increasing income levels. Because of the complexity of the system, and because there are large concentrations of the population just outside those categories, it makes further improvements very difficult or very expensive without full system redesign. A basic income guarantee (BIG) could contribute to solving some of these problems and reducing others. The redistributive effects of a BIG would benefit the poor, aboriginal people, people with disabilities, women, recent immigrants, and people working below the median income.

The changing labour market ...

The second part of the puzzle is the evolving economy, with the effects of global supply chains and rapid development of information technology. These are combining to eliminate long term, steady, middle income jobs. And the jobs that remain don't pay as much as they used to.

Of course there are good jobs being created as well, especially in the innovative sectors. An affluent professional class is pulling away from the middle range, especially in the growing cities. And star performers in sports, music and corporate management are getting fabulously rich. But the rest of the employment picture is tipping toward the lower end and precarious work for a growing proportion of the population. John Stapleton, in a report for the Metcalfe Foundation, points out that in the economic powerhouse economies of Toronto and Vancouver, job growth has been concentrated at the top in high paid professions, and more so, in low level service economy jobs. Kind of a servant class. This, combined with the nature of some of the opportunities of the digital economy – buying and selling through the internet, for example, or taking part in the sharing economy – means that an increasing proportion of money earning activities do not look much like a “regular full time job.” The Campaign 2000 website points out that since 2009, nearly 75% of all jobs created have been temporary, part-time or self-employed. Our regulations tend to (unsuccessfully) discourage people from irregular economic activity. They should adapt to it.

And then there is the issue of student debt, in order to obtain the higher education credentials required for good jobs. I am not against student debt. In general it is a good investment. However, the higher education system attracts people from middle and upper income categories more than the lower income groups. Perhaps because the loans are insufficient to cover the real costs of living during education? Or because lower income students tend to get discouraged or diverted in high school? Not sure if a basic income guarantee would solve this or wind up as an indirect subsidy to the better off. But the question needs to be addressed, and some experimentation here would be useful. If it were possible to keep all youth successfully in education and skills training at least to the age of say, twenty one, the potential benefits are enormous. Lower lifetime unemployment, reduced disability and financial dependency, reduced criminality and violence, increased economic performance and increased tax revenues. A BIG could help to support this, but it would have to be carefully implemented. The combination of a comfortable cave in the parents' basement with a basic income, video games and easy access to weed could become a problem....

Globalization, global supply chains, the unfettered mobility of capital, and new technology also pose serious challenges to the earning capacity of large portions of the population, to the continuance of high levels of consumption, and to the ability of governments to impose taxes and redistribute income.

Routine tasks, whether they are in production of consumer goods, processing of orders, collection of payment, supervision of process work, are requiring less labour. Artificial intelligence is providing options such as driverless vehicles, personalized services, service and production robots, drone delivery, even specialized knowledge services. Internet-based enterprises can deliver services anywhere, and can organize local service provision like taxis and accommodation without local infrastructure. Labour has been disempowered in many parts of the world and the results are seen in stagnant wages. A good portion of present day consumption is facilitated by debt, and negative interest rates are a sign that there are limits. The concept of earning a living is being challenged. The International Labour Organization has clearly identified this potential crisis in its current project on the future of work.

Tax havens and international competition to attract private dollars, have helped global corporations and wealthy individuals to shop for low tax solutions, which is why the OECD has suggested in a recent fifty-year visioning exercise that consumption taxes may need to replace income tax over time. But even that tact may not be available if consumption begins to be undermined by stagnant or decreasing incomes. And the rich don't use all their income to consume. Governments are facing growing challenges in the capacity to tax, and many Canadians have bought into the myth that they don't benefit from paying taxes. Raising taxes on affluent incomes and wealth to redistribute downward will be tough but necessary.

The potential for loss of social trust and social consensus is already making itself felt – in the US election campaign, in the British vote to leave the EU, in the rise of extremist political organizations. People are losing faith in government; losing faith that it acts in their interests. They see politicians and senior bureaucrats leaving office and accepting lucrative positions in big business. They see banks and multinational firms being caught for crimes and rich people exposed for tax evasion or avoidance, but no one goes to prison. There is a serious threat of social disintegration in many countries, and Canada is not immune from it.

A Basic Income Guarantee is not going to solve these problems. But it may provide a financial infrastructure to make adjustments to changes which are affecting the earning power of the population.

But the Fraser Institute study is right in that a BIG is not an easy fix. Paying out a substantial universal demo-grant may not be politically feasible, and for sure not in early phases. And an unconditional negative income tax will not likely permit to do away with gobs of social programs and fire legions of bureaucrats. Again Fraser has it right. And they are right in relation to labour market effects, as many would choose to take the payments and work in the evolving grey economy. And putting steep tax back provisions that come into effect at too low a level would probably recreate the problems of social assistance programs.

The Fraser study also points out the complexity of current service and benefit systems and how they are spread across various levels and orders of government. And Canada is by no means a model of intergovernmental cooperation. So we should not assume that governments and institutions will collaborate. Probably the opposite: they will likely compete to gain some kind of competitive advantage at the cost of the other. A bit depressing to make that comment but history bears it out.

So the challenge is to find feasible approaches, test them in practice and adjust as we go along. Basic income proponents, me included, believe that a better distribution of living standards will be better for society. But how do we ensure that the good things we expect from improved incomes, say for the bottom third of the scale, do happen? We don't currently have the kind of social budgeting or accounting system, to give us the feedback we need to adjust our programs and justify our social investments. We need to put one in place.

An example: About ten years ago Malcolm Gladwell published an article in The New Yorker about a homeless guy in Reno ("Million Dollar Murray") who over a ten year period was responsible for about a million dollars in costs for police, drunk tanks, paramedics and emergency room services. Hard to tell in the article but it seems that didn't even count costs of shelters, food banks, social assistance, property damage, and other related system costs. And didn't count lost economic benefits and tax revenues from his years on the street when he might have been gainfully employed. So it would seem like a no-brainer to give him a safe place to live and invest in his rehabilitation. Problem is, keeping Murray out of the emergency ward won't lower those costs. Maybe someone will get served a few minutes faster and have their life saved, but even if that person goes on to become the next Bill Gates, no one will connect the

dots. The emergency ward will not be able to reduce their budget. So if reducing poverty and inequality will make us a healthier society, we need to make sure the benefits accrue and are accounted for.

In a recent Pearson Centre roundtable, Sergio Marchi, CEO of the Canadian Electricity Association and former cabinet minister and ambassador to the World Trade Organization, quoted a statistic that if the gap in education between aboriginal and non – aboriginal people could be closed, then by 2025, Canadian GDP would be increased by \$400 billion per year. At current tax rates, government revenues would benefit by about \$130 billion. If we could document and attribute those gains as we go along, public confidence and political support would increase.

People need to know that the system is working to have confidence in it. I remember about thirty years ago, being on a city tour bus in Oslo. As we went through the streets to various attractions, the guide made a comment something like " We often get asked why we don't see beggars or slums. The reason is we don't have much poverty here. We pay high taxes but people get taken care of. And we can walk in the streets in the evening without fear. There is very little crime. Everyone is friendly. We have a very nice lifestyle in Norway." The benefits of their system were known and appreciated, and by the way, Scandinavian countries like Norway rate very high in competitiveness, economic performance, and happiness.

My suggested approach is not a magic formula for success. I have tried to identify a possible route and in so doing to take account of as many of the issues and obstacles as possible. There are probably better ways but this might be a way to focus the discussion.

So lets start by having the federal government propose, as an objective, a national poverty floor. Propose that within a given number of years, all Canadians will be enabled to live above a poverty threshold. It could be a single national threshold or a national formula which would incorporate existing income levels in different regions. The proposal could perhaps take the form of a declaration of basic income objectives, or an incomes charter. The International Covenant on Economic, Social and Cultural Rights (ICESCR) provides a good conceptual and legal foundation for it because it expresses commitments to progressive improvements, and Canada, with approval of all of the provinces, is already signatory to it. (Canada has also been criticized several times by the UN for not fulfilling its obligations under the Covenant.)

Provincial governments, territorial governments, first nations governments and municipal governments, could be invited to ratify and sign on to it. United Ways, corporations, unions, industry and professional associations, and national, provincial and local ngo's could also be encouraged to formally support the declaration. The broader the sharing of the objective, the more momentum it will maintain over time.

The federal government could propose to provinces, a means to eliminate inter-governmental fiscal competition based on passing social costs from one government to another. Our current system of fiscal transfers contains a variety of transfer mechanisms and equations which govern transfers to people (including cash, fee adjustments, and benefits in kind) and to governments (including cash and tax point transfers). It would not be too difficult to establish what the overall share of costs for income support have been by each government over recent years, and to develop a formula to maintain that proportionality and adjust it as agreed. A national social equalization fund could be established which would ensure that the costs of the social infrastructure are equitably shared, and thereby eliminate the wasteful efforts of all governments to save money at the expense of another government's program. (As mentioned above, Canada has a rather sordid history of intergovernmental fiscal competition in policies guiding employment insurance, social assistance, provincial disability and CPP disability benefits, and tax credits.) Ratification by governments would specify that they would collaborate, and would not

undermine income enhancements by reducing benefits in other programs except as part of a collaborative strategy of program integration.

The federal government could also establish an evaluation framework which will track all public costs and benefits as they accrue. This will need to include not only program investment costs and direct savings in other programs, but also reduced demand for a wide range of supports, as well as increased labour force participation and the effects on economic growth, increased tax revenues, etc. This responsibility could be given to the Parliamentary Budget Office, with appropriate funding and the request that wherever possible the system be established in collaboration with provincial governments.

As interest and buy-in is developed the federal tax system can be used to implement a Basic Income Guarantee (BIG), testing and adjusting the design in an ongoing learning, evaluation and adjustment process. There are options for how to do this. One way to start might be to implement Robin Boadway's suggestion to make the basic personal tax exemption, refundable. This would provide an immediate infusion of money into low income households and would not break the bank. The distributional impact would need to be assessed and the interaction of this with other transfers and benefits considered, to avoid perverse results. The costs would be shared between federal and collaborating provincial governments in accordance with the present tax system.

Over time, there will be an opportunity to integrate many financial transfer systems, with the tax system becoming the paymaster on behalf of all governments. This can be done while respecting current jurisdictions and spending authorities. As the BIG is established and spreads across the country, collaborating jurisdictions would be able to have the federal paymaster take over more functions. The implementation can be asymmetrical.

Something that will be needed is the ability of the paymaster to access and integrate case files for all transfer and benefit programs. In past decades there might have been privacy concerns about this, but it is unlikely to be a big issue now. Many countries do this. But if there are concerns then participants in the BIG may be asked to give permission in order to participate. Over time though, it would be nice to see the integration of information in this form, result in a "personal lifetime account" which could provide any individual in the country with an up to date accounting of the various benefits received, and taxes/fees/payroll deductions paid. Like our online bank accounts. It could even be supplemented with individualized estimates of the value of other public goods (like education and health care) that we consume. ...but I digress....

A big question of course, is whether people with a basic income guarantee should be required to participate in the formal economy through work or education or rehabilitative services. We could experiment here and evaluate the impacts on people and society. For example, we might offer a simple, low level unconditional transfer to people who choose that option. They can make a formal choice to "make it on their own" subject only to tax back provisions depending on their income. Others could be offered an economic participation incentive tailored to their living situation. This could provide for subsidies for education and training, and perhaps work experience. These are not necessarily new programs; many exist now.

The BIG should be integrated with an expanded Working Income Tax Benefit. Ensuring improving living standards associated with work is essential. The current program is modest and tends to favour part-time work. We know that any time a transfer based on income is introduced or enhanced, there is a need for adjustments up the income scale, perhaps up to the median income level, if "notches" or perverse incentives are to be avoided. Small improvements cost a lot because the population who benefit broadens

as income levels increase. In the past, this situation has been a stopper for programs of broad application, and the result has been a very uneven system of highly-targeted benefits such as cheap bus passes, medication supplements, energy cost reductions, age-related benefits, subsidized housing, and many more. Lucky are those who can find and get into all of the right categories. In this case, it is desirable to take on the higher costs and thereby move subsidies across the bottom third, or even more, of income earners. The chance for offsetting cost reductions is good here if it is done collaboratively. and the opportunity to evaluate the overall impact on economic participation and economic growth is a good one.

A related issue is the application of minimum wage increases, and the relationship to the BIG. Here is another great opportunity to experiment and evaluate. I would suggest that experimental minimum wage increases be undertaken in collaboration with cities. Toronto can very likely implement a \$15/hour minimum. Cornwall, maybe not.

An important consideration will be the minimum age and status for entry to the system. Young adults and students will be especially attracted to this kind of program and the costs could escalate quickly. I don't think that an unconditional BIG should replace the current system of student loans. But it could be integrated with a subsidy system which ensures that youth at lower income levels do not have financial barriers to education. And as I speculated above, keeping all youth in the education and training systems until they are fully prepared to succeed in the labour market, would pay major benefits to all.

Closing Comments

It is obvious that this approach will cost a lot of money, as it will improve the living standards of a broad swath of the population. But there are cost offsets, savings, and economic benefits which will accrue to participating governments, and part of the purpose of phasing in the program over time is to ensure that they do in fact accrue before the spending commitments get out of line.

It is open to question, but in my view the BIG should not replace, but should be supplemented by, children's benefits and disability-related benefits. As well, it seems best to design the BIG for individuals and let them live where and with whom they wish.

It will be incumbent on governments to generate extra tax revenues, especially in early stages, and from higher income people. We might aim for a transfer of income from the upper third to the lower third. Higher marginal rates on incomes over \$100,000, and a graduated tax on wealth – such as on estates over a specified threshold – could help. Canada should be engaging assertively in international efforts, such as the one being lead by the OECD, to ensure that individual and corporate wealth cannot escape taxation by using tax havens.

BUT – if the system works as we believe it will the cost savings and increased economic performance will over time come to offset much or all of the costs.

AND – look what we will have achieved – elimination of poverty, increased living standards for a third of the population, decreased crime and violence, a healthier population, a more educated, economically active and productive population. A better and happier living partnership with Aboriginal peoples. A simplified and more efficient social program system with reduced administrative costs. Greater public trust in government. Reduced inequality, and a happier and more socially adaptive population. A bargain for the money!