

BASIC INCOME GUARANTEE: BACKGROUND

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PURPOSE

This backgrounder was prepared to support resolutions on the issue of a basic income guarantee (BIG), being submitted to the Association of Local Public Health Agencies (alPHa) and the Ontario Public Health Association (OPHA) in 2015.

METHODS

This document was informed by key grey and academic health and social policy literature related to the issue of basic income, located through brief searches of MEDLINE, Google Scholar, and websites focussed on basic income, as well as consultation with individuals with basic income expertise.

BACKGROUND

What is a basic income guarantee?

Basic income guarantee (BIG), also known as a guaranteed annual income, is a cash transfer from government to citizens not tied to labour market participation (Pasma and Mulvale, 2009; Basic Income Canada Network, 2015). It ensures income at a level sufficient to meet basic needs and live with dignity, regardless of work status (Basic Income Canada Network, 2015). Basic income is premised on the vision of universal income security through ensuring that everyone receives a modest, but adequate income (Pasma and Mulvale, 2009).

What are the key policy options for providing a basic income guarantee?

There are essentially two basic models, with some degree of variance, for providing a basic income guarantee. These are the negative income tax model and the universal demogrant model (Pasma and Mulvale, 2009).

Originally proposed by the American economist, Milton Friedman, the **negative income tax** model (NIT) relies on the tax system as the vehicle for administering a basic income guarantee. It consists of three basic elements: the benefit level, the reduction rate and the break- even level. The benefit level is the maximum benefit payable to any individual. The reduction rate is the amount by which the benefit is decreased for additional household income exceeding the benefit rate or maximum allowable level. The break-even level is the amount of income at which the reduction rate is 100%, meaning that those above the break-even level receive no benefit.

The **universal demogrant (UD) model**, by contrast, entails the provision of a regular payment to every citizen. While the UD payment itself is exempt from taxation, all additional income is taxable. In practice, this means that high income citizens pay the UD benefit back through their taxes.

Is one policy option better than the other? What are the relative advantages of NIT vs UD?

Each model has its strengths. For example, the NIT is viewed as maintaining a work incentive since the benefit is not eliminated entirely as additional income is received, while the UD model is viewed as less stigmatizing - as everyone receives the benefit through a direct payment - and more effective for increasing social cohesion (Pasma and Mulvale, 2009).

However, for any basic income model, the detailed decision making on benefit levels and tax rates will determine how effective the policy actually is in reducing poverty (Yalnizyan, 2013).

What is the history of basic income policies in Canada?

A form of guaranteed income for Canadian seniors was established in 1967, with the introduction of the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) programs (Basic Income Canada Network, 2015). As a result, Canada has one of the lowest rates of seniors' poverty in the world. When low-income Canadians leave the workforce after turning 65, their poverty level drops substantially: statistics show that the rate of Canadians experiencing food insecurity is fifty percent less among those aged 65 to 69 than it is among those aged 60 to 64 (Emery, Fleisch and McIntyre, 2013).

Similarly, the Canadian Child Tax Benefit (CCTB), including the National Child Benefit Supplement and the Child Disability Benefit, provides universal monthly benefits to parents of children under 18 years to assist with the costs of raising children. Benefits are rated according to the number of children and reduced at a certain income threshold. An examination of this program has found that it leads to improved outcomes for children, both in terms of math and reading skills, and in terms of mental and physical health measures (Milligan and Stabile, 2011).

In the 1970s, the federal government launched a national review of social policy with the aim of developing a program to ensure an adequate minimum income for all Canadians. As part of this review, Manitoba agreed to serve as the pilot site for a federally funded basic income experiment.

This initiative, commonly known as **Mincome**, was launched in Dauphin, Manitoba in 1974. Mincome compared low-income families enrolled in the experiment with a control group that did not receive the Mincome benefits. Three income support levels up to a maximum of \$5,800 (\$29,069.00 in 2015 dollars) for a family of four were tested, with adjustments for family size and structure (Hum and Simpson, 2001). These amounts were increased annually throughout the duration of the program due to the high rates of inflation throughout the latter half of the 1970s. Three tax back rates were then applied to all income the families received above the Mincome benefit rate: 35, 50 and 75 percent.

The Mincome pilot was terminated without a final evaluation report in 1979. A retrospective evaluation conducted by Evelyn Forget, an economist at the University of Manitoba, was published in 2011. Forget found that the disincentive to work, a key concern expressed about a basic income guarantee, was minimal as only new mothers and teenagers worked substantially

less during Mincome. Mothers with newborns stopped working because they wanted to stay at home longer with their babies, and teenagers worked less because they weren't under as much pressure to support their families. The latter trend resulted in more teenagers graduating high school. Moreover, recipients who continued to work had more opportunities to choose what type of work they did. Forget also found unanticipated associations between Mincome and positive health outcomes. Over the duration of Mincome, hospital visits dropped by 8.5 percent, with fewer incidents of work-related injuries, and fewer emergency room visits from motor vehicle accidents and domestic violence. Additionally, there were reductions in the rates of psychiatric hospitalization and the number of mental illness-related consultations with health professionals (Forget, 2011).

Basic income has also had a long history outside of Canada. For example, in the US, the Office of Economic Opportunity conducted four basic income experiments from 1968-1976, and Alaska has had its Permanent Fund Dividend program in place since 1982, which pays small but impactful basic income payments to all residents annually (Forget, 2011; Pasma, 2014). Successful programs and pilots have also been conducted in Brazil, India, and Namibia (Pasma, 2014).

What are the key potential benefits of a basic income guarantee?

Basic income has supporters from across the political spectrum since, depending on how it is provided, it can achieve a range of policy objectives. There are a number of economic, social, and health-related arguments favouring basic income:

Economics – A BIG has the potential to alleviate or even eliminate poverty. This is a powerful rationale, in current times of growing economic inequality and persistent poverty in the setting of rich countries (Young and Mulvale, 2009).

Over the past two decades, technological change and globalization have changed the nature of job opportunities available to Canadians since the Second World War, resulting in fewer opportunities for secure, permanent jobs paying living wages. These trends have forced an increasing number of working age adults to rely on **precarious employment**, such as self-employment, part-time, temporary or contract work (Granofsky et al, 2015). This work is considered precarious because it has less stability and consistency, less job security, and the associated income is often insufficient to save for retirement or emergencies. The number of Canadians dependent on precarious employment has been steadily increasing. For example, a joint 2013 study from the United Way and McMaster University found that almost half the adult workforce in Southern Ontario had jobs that could be characterized as precarious

employment (Lewchuk et al., 2013). A basic income guarantee can buffer the effects of precarious employment by providing a form of 'disaster insurance' that protects people from slipping into poverty during challenging times, and going without necessities such as adequate food or shelter (Emery, Fleisch and McIntyre, 2013).

Furthermore, a BIG would likely allow for streamlining of some existing income support programs into one universal system, reducing public administration and intervention with related efficiencies (Hodgson, 2011).

Health and Social - Given that basic income is designed primarily to bring individuals out of poverty, it has the potential to reduce the substantial, long-term social consequences of poverty, including higher crime rates and fewer students achieving success in the educational system (Basic Income Canada Network, 2015).

With the well-established relationship between low income and morbidity and mortality from a wide range of causes, it could reasonably be anticipated that a basic income guarantee would have important health-promoting effects at the individual level (Forget, 2011). Moreover, if basic income is able to reduce income inequalities within a jurisdiction through greater redistribution, it could contribute to health improvements across the population, given that a multi-country analysis of data conducted by Wilkinson and Pickett (2009) found that countries with higher rates of income inequality had correspondingly higher levels of health and social problems across all income levels, including lower life expectancy, math and literacy scores, and trust, and higher levels of obesity, mental illness, and violence.

Forget's study of the Mincome pilot did, as already noted, demonstrate some of these health and social impacts of basic income (Forget, 2011), despite the limitations on what could be measured retrospectively. As well, the health effects of Canada's guaranteed income programs for seniors have been notable, with the rate of food insecurity declining substantially and self-reported physical and mental health improving markedly, after low income Canadians move from low-wage, insecure employment to a guaranteed income at the age of 65 (Emery, Fleisch and McIntyre, 2013).

Basic income also promotes greater equality of opportunity, or economic democracy (Young and Mulvale, 2009; Pasma and Mulvale, 2009). A guaranteed income, at an adequate level, provides people the autonomy to manage their own circumstances, such as recovering from financial setbacks, balance shifting employment and family care needs, recovering from illness or injury, or seeking more education, retraining, or novel job opportunities, all with some

degree of security (Basic Income Canada Network, 2015). Parents who have grown up without much opportunity can also choose to save and plan for a different future for their children.

Further, a BIG has the potential to be a simpler, more transparent approach to social assistance than the current system, and extends protection to those who are currently not covered or poorly covered (Pasma and Mulvale, 2009). As well, the universality and conditionality of guaranteed income makes the traditional scrutiny of social assistance recipients unnecessary, avoiding the associated stress, stigmatization, and employment disincentives (Young and Mulvale, 2009; Basic Income Canada Network, 2015).

How much would a basic income program cost and how would it align with other social programs?

The direct costs of a basic income program would vary substantially depending on the model and assumptions made, but either way estimates demonstrate that it would represent a very significant public expenditure (Young and Mulvale, 2009). However, even conservative estimates of the indirect costs of poverty (e.g., through health care, remedial education, crime, social programs, and lost productivity) can be higher than the costs of alleviating poverty in Canada (Basic Income Canada Network, 2015). In Ontario alone, the indirect costs of poverty have been estimated at \$32.2 - \$38.3 billion in 2007 dollars, or 5.5% - 6.6% of Ontario's then GDP (Laurie, 2008). In addition, it has been argued that the environmental costs of premising income support and economic redistribution on economic expansion and growth is no longer feasible (Young and Mulvale, 2009). Factoring in such costs of *not* having a guaranteed income scheme are important components of the affordability and feasibility discussion.

Additionally, as previously noted, a BIG would likely allow for streamlining of some existing income support programs into a universal system, with related efficiencies (Hodgson, 2011). In regards to other public services such as health care, education, child care, and supports for First Nations, Inuit and Metis communities, newcomers, and people with disabilities, a BIG is intended to strengthen and augment (rather than replace) such services (Basic Income Canada Network, 2015).

What are the jurisdictional issues (i.e., federal vs provincial) around the implementation of a basic income guarantee?

With respect to basic income, jurisdictional issues between the federal and provincial levels of government are not entirely clear. While provinces bear constitutional responsibility for the payment of social assistance to individuals, federal spending power extends to payments to

individuals as well as conditional and unconditional grants to provinces that could potentially be used to fund a basic income guarantee (Stilborn, 1997). In practice, however, it is likely necessary that the provinces and federal government reach an agreement on how to fund and deliver a BIG. Such an agreement is needed to ensure that social programs do not disappear in some parts of Canada but not in others. In addition, if the federal government assumes full or partial responsibility for funding basic income, provinces would have increased revenues which could either be utilized as their share of a basic income guarantee funding or for other provincial programs (Pasma and Mulvale, 2009).

Which political parties and other groups are in support a basic income guarantee?

As was noted previously, support for basic income guarantee spans the political spectrum. As of 2015, two federal political parties - the Liberal Party of Canada and the Green Party of Canada - have passed resolutions supporting a basic income guarantee in the form of basic income supplements (see links to resolutions in references). In the Conservative Party, former Senator Hugh Segal has publicly called for a guaranteed annual income for several decades. In 2008, Senator Segal introduced a notice of motion in the Senate calling for a study on the feasibility of guaranteed annual income as a means of reducing poverty (Pasma and Mulvale, 2009).

There have also been expressions of support from politicians from several provinces and municipalities. In a unanimous show of support leading up to PEI's May 2015 election, leaders from the PC, Liberal, NDP and Green parties each expressed a commitment to exploring a basic income guarantee program for PEI, such as in the form of a multi-year demonstration project (Burge, 2015). At the municipal level, at a May 2015 national poverty reduction summit Mayor Naheed Nenshi of Calgary committed to take a leadership role in striving for a guaranteed annual income, and encouraged other mayors to do the same (Benns, 2015).

Further, there have been recent formal expressions of support for basic income from the Canadian Medical Association, the Alberta Public Health Association, and the Canadian Association of Social Workers (Canadian Medical Association, 2015; Alberta Public Health Association, 2014; Drover et al, 2014). The Canadian Public Health Association is also examining the issue (Personal communication with Ian Culbert, Executive Director, March 20, 2015). Beyond the health and social sectors, a non-governmental organization by the name of Basic Income Canada Network is now dedicated to achieving a basic income guarantee in Canada, and several citizen groups are forming across Ontario and Canada in support of this issue.

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