

## **A young person's guide to a guaranteed annual or basic income**

The idea of a guaranteed annual income or a basic income has been around for decades if not centuries. But recently, these ideas have become popular again. There is a lot of 'noise' surrounding these concepts and I believe that it will be very hard especially for young people to understand what is important and what is not important.

In this short essay, I will try to separate what is important from what is not and to discuss rules that are relevant as opposed to those that are not. So here goes. I have written before on what a basic income would cost<sup>1</sup> and what the annual part<sup>2</sup> means under a guaranteed annual income.

### **Rule 1: A GAI or a BI is for everyone (and that's not the case now)**

The first thing for you to know is that a guaranteed annual income (GAI) or a basic income (BI) in Canada is like a unicorn. Unicorns are beautiful but they don't exist. For a GAI or BI to exist, they must have the quality of being for all Canadians. That is the first rule of the GAI or BI: that in order to exist, they must be in place for everyone.

### **Rule 2: Canadians must all live free of income poverty as assessed by poverty lines**

The second rule of a GAI or a BI is that each Canadian must live free of income poverty over their lifetimes. In other words, no one in Canada would be poor anymore.

Six of seven Canadians at any one time already live poverty free<sup>3</sup>. Their income levels are high enough to escape poverty. Through work, investments, wealth or income security programs of various sorts, their income is above established poverty lines.

These poverty lines are the low income measure (LIM), the low income cutoffs (LICO) or the Market Basket Measure. Each can measure income by family size and most place after-tax poverty level at incomes of about \$20,000 to \$40,000 for a single person or family of four.

I am not going to get into a fight about poverty lines here. What's important is that they are all more or less the same and if there is an argument, let's use the highest one.

One out of seven people in Canada live in what is known as 'income poverty'. This means that they have after tax incomes below the amounts noted above.

### **Rule 3: Income must be guaranteed to the one in seven Canadians who are now poor**

Both the GAI and the BI are generally in agreement about what comes next. They both call for the one in seven or about 5 million people in Canada who are living in poverty to be raised out of poverty through a transfer of income to them to achieve this goal. How this gets done is a matter

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<sup>1</sup> <http://vibrantcanada.ca/blogs/john-stapleton/they-cant-we-can>

<sup>2</sup> <http://vibrantcanada.ca/blogs/john-stapleton/guaranteed-annual-income-contains-three-words-let%E2%80%99s-talk-about-%E2%80%98annual%E2%80%99-part>

<sup>3</sup> <http://www.cwp-csp.ca/poverty/just-the-facts/>

of debate; but most agree that it could be achieved through the income tax system or through a new income security program.

#### **Rule 4: A GAI differs from a BI in terms of what happens to the income security and tax systems in Canada**

A GAI could be achieved for every poor person in Canada up to the poverty line but how this gets done differs from one plan to another. For example, about 5% of people in Canada – one in twenty or 1.8 million of the 5 million receive their income from social or income (welfare) assistance programs. Most proponents of a GAI or BI would not agree with raising welfare programs up to the poverty line.

In Ontario, welfare programs would have to be raised by about 125% to bring them to the poverty line. Disability income assistance would have to be raised by about 80%. This would be highly controversial and the programs would have to be significantly redesigned to accommodate such large increases. Most proponents of a GAI or BI do not want to increase welfare to achieve a GAI or BI.

But this is where it gets interesting.

GAI proponents generally wish to change the income security system that we have now and put the money we now spend to the purpose of creating a GAI.

Basic Income proponents have a propensity to allow the working parts of the current income security system to be left alone and use the income tax system or a new program to bring everyone up to the poverty line or to a level somewhat higher than that.

Right now, the income security system in Canada spends about \$160 billion (2015) and the proponents of a GAI generally wish to realign current income security programs in service of an overall guarantee that would be available either to all who are not poor now or to everyone.

This means a cancellation or realignment of the following programs:

#### **Aged:**

- OAS, GIS, CPP, provincial supplements

#### **Disability:**

- CPP-D, social assistance, Veterans benefits, the WITB-D, RDSP's, Workers' Compensation, EI sickness, Private programs, the Disability Tax Credit

#### **Working Age:**

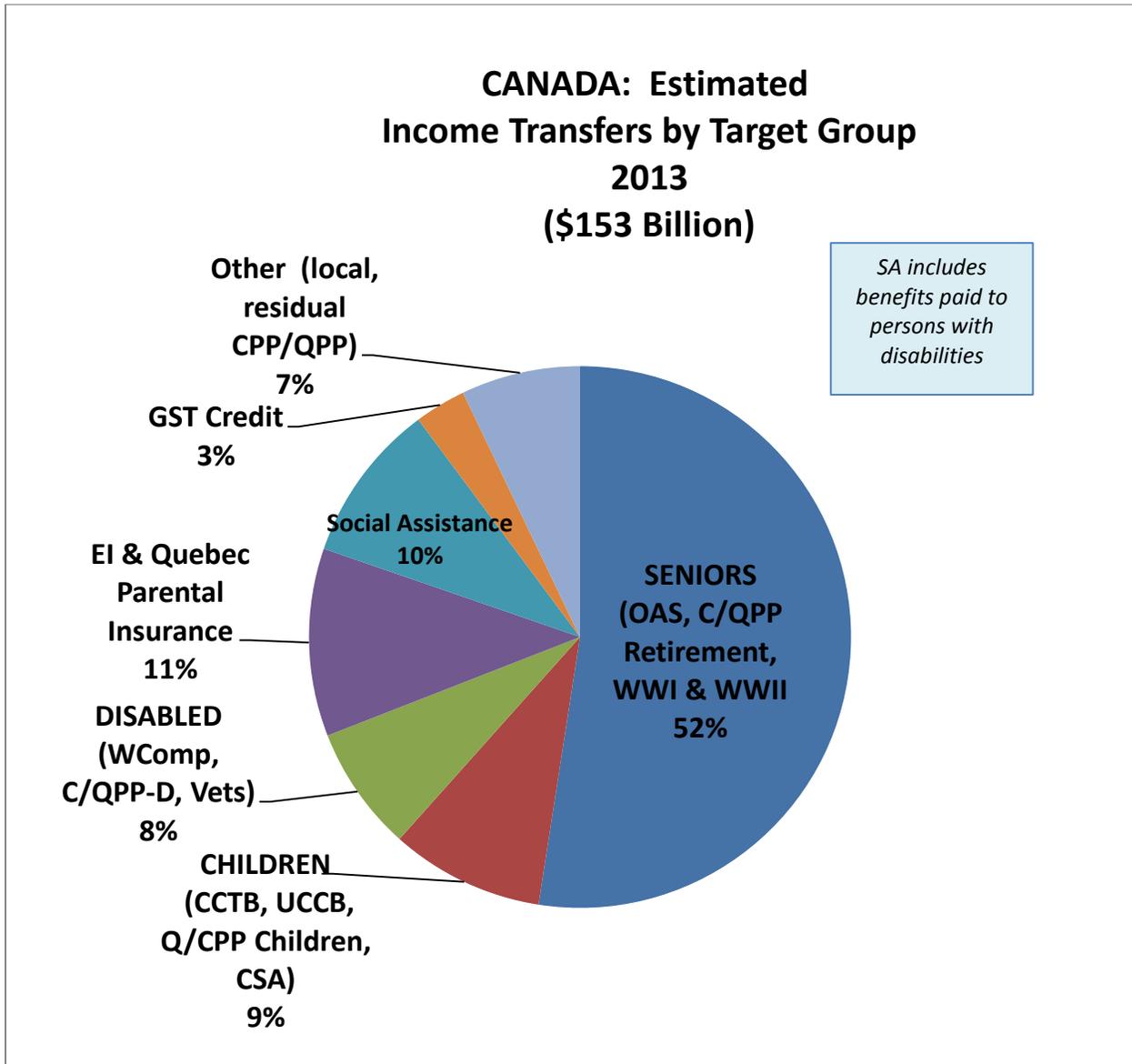
- WITB, EI, Veterans, refundable credits, social assistance

#### **Children:**

- The new CCB, provincial programs, children's portion of social assistance

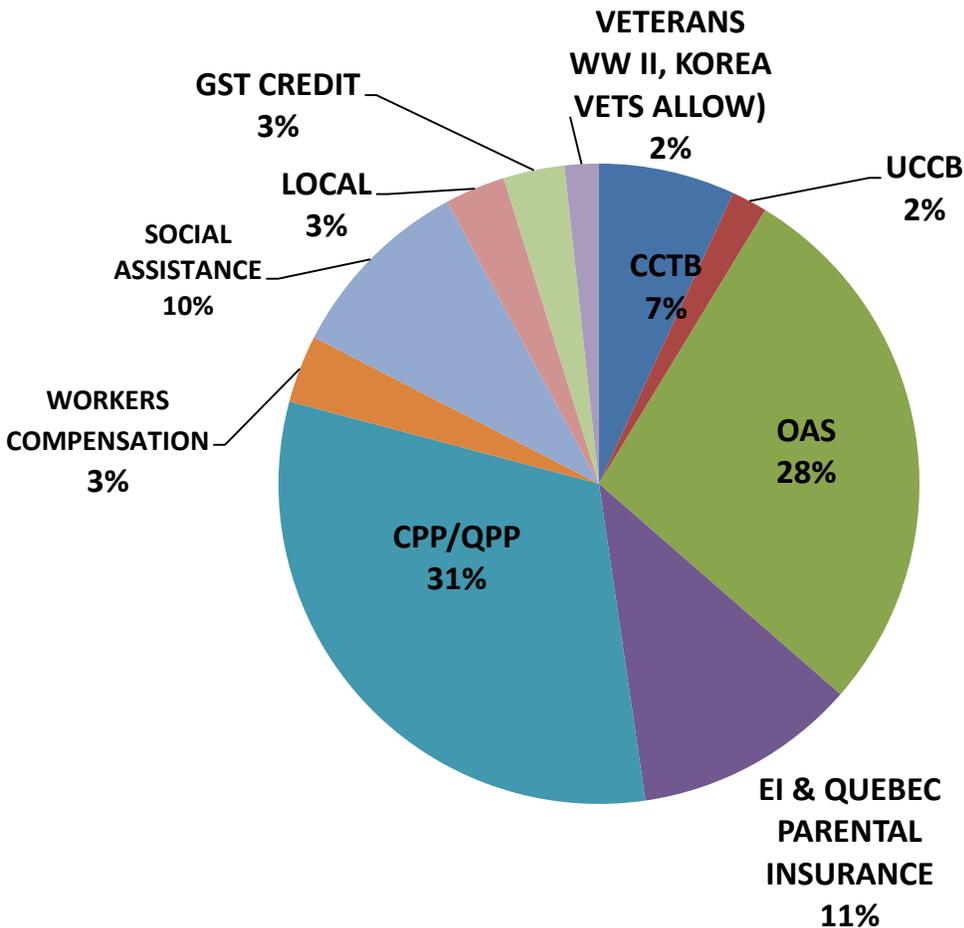
They would then add approximately \$30 billion to the realigned \$160 billion and change all rules so that the income provided would be guaranteed and would be paid according to an annual reckoning of income.

Here is a pie diagram of the current income security in 2013 by target group when spending clocked in at \$153 billion in Canada.



And here is the same pie diagram according to program structure:

## CANADA: Estimated Income Transfers by Program 2013 (\$153 Billion)



GAI proponents often say that there would be significant savings in administration that may result from program consolidation. Currently, these programs spend approximately \$8 - \$10 billion in administration and perhaps that amount could be cut in half with better program coordination. But claims that administration cost cutting could pay for significant improvements are simply unfounded.

BI proponents range from those who would partially dismantle the present system to those who would simply add the \$30 billion needed to bring all Canadians up to the poverty line.

### What do I think?

First of all, the idea of handing out a basic guarantee to everyone whether poor or non-poor doesn't seem to make a whole lot of sense. This is the weirdest version of the GAI.

Kevin Milligan<sup>4</sup> has noted that the \$500 billion price tag would basically bankrupt the country and this is largely true as the basic income alone could cost more than 20% of GDP versus the current cost that stands at about 8% of GDP. The idea of spending a lot of money on the 6 in 7 Canadians who are not poor seems like a solution in search of a problem.

The \$30 billion to bring everyone up to the poverty line stands at about 1.5% of GDP so that is a reasonable amount. The problem with spending the \$30 billion to bring everyone up to the poverty line is that unless done very cleverly, it can look like a 125% increase in social assistance during a time when it has been almost impossible politically to keep welfare benefits in line with inflation. In fact, they have not kept up with inflation for the past 23 years so it is hard to imagine finding the political will to suddenly raise welfare income increases by 25 to 50 times what has been possible over the last two decades.

The next problem will come in the form of a question: is raising incomes the best thing that one could do with an extra \$30 billion?

The answer from many will be that more affordable housing, lower tuition, more affordable transit and child care spaces are a lot better use of money than raising incomes. Some will argue that both should be done but the \$60 billion price tag means a revenue increase equal to \$1,739 per Canadian or \$3,478 from the richest 50% of Canadians; so it starts to sound like a lot of money. To raise that amount of money would cause a lot of pushback.

Yet it's also important to note that poverty has a cost and that in the long term, raising all Canadians out of poverty would have highly beneficial effects and would lower the costs of the health and justice systems over the long haul.

We also have to think about First Nations whose poverty is not just income poverty: they experience living standard poverty which higher incomes alone are not going to solve. A long term commitment from Canadians to raise living standards on reserves should be an early priority.

Finally, we have to think long and hard about dismantling an array of good programs that either still work well like CPP, OAS, GIS, refundable credits and child benefits and programs that could work well like Veterans benefits, EI, and worker's compensation. Dismantling programs that Canadians know well and are used to will not be easy to do and many would question if the glow of a GAI would be reason enough to dismantle programs that many people believe are helpful and adequate.

In conclusion, I come down on the side of a preference for a BI over the GAI but acknowledge that social assistance programs would have to be completely redesigned for Canadians to accept any move towards adequacy. So there you have it. A GAI is likely impossible and impossible for good reasons. A 'BI' would be a great step forward but there are terrific headwinds ahead. I hope we are ready for the push.

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<sup>4</sup> <http://www.theglobeandmail.com/report-on-business/rob-commentary/everyone-talks-about-basic-income-heres-why-they-dont-implement-it/article27723204/>