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A GUARANTEED BASIC INCOME FOR CANADIANS: OFF THE TABLE OR WITHIN REACH?

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EXECUTIVE SUMMARY

Pilot projects in the past that have experimented with a Guaranteed Basic Income (GBI) in Manitoba and Ontario, and a recent study of the feasibility of a GBI in British Columbia, indicate that provinces are not in an ideal position to successfully implement an affordable and effective GBI. However, a GBI implemented by the federal government, financed by eliminating the GST credit and lowering personal tax exemptions, could be both effective and affordable. It could also do so without requiring the elimination of those provincial social assistance programs that are more deeply targeted toward people's needs. By using its revenue powers, the federal government could create more fiscal capacity for the provinces to provide other cash and in-kind social supports, allowing for greater provincial benefit targeting.

The federal government's centrality in designing and implementing tax structures and collecting tax revenue make it singularly suitable for administering and delivering a GBI. Financing the GBI by eliminating the modest GST credit and lowering the current basic personal income tax exemption could provide a significant reduction in the rate, depth and intensity of poverty in Canada, without imposing an excessive tax burden on Canadians. If provinces use the GBI as a replacement for certain less-targeted provincial social assistance income transfers, the freed-up payments and reduced

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caseloads could also allow provinces to target more effectively those needs not addressed by the GBI.

The recent COVID-19 pandemic exposed longstanding gaps in Canada's income-support frameworks, with lower-income workers facing exceptional economic vulnerability. At the same time, the Canadian Emergency Response Benefit proved edifying in terms of how to best design a basic-income program. In addition, the federal government's experiences with the poverty-reducing impacts of the Canada Child Benefit, the Old Age Supplement and the Guaranteed Income Supplement have moved Canada closer than ever to a workable GBI. While it comes with additional costs, those costs will be less burdensome than many GBI skeptics might believe. They must also be put into perspective, by comparing them against the costs of current and, in many cases ineffective income transfers and, just as importantly, against the human cost of leaving more Canadians living in poverty.

1. INTRODUCTION

The COVID-19 pandemic has exposed weaknesses in income-support systems across the world, and Canada is no exception. Public health restrictions to combat the disease and protect the health system have hit low-income workers and small businesses exceptionally hard. Canada's federal government has responded with emergency measures to protect employment and support incomes, including with the Canada Emergency Wage Subsidy, targeted at businesses, and the Canada Emergency Response Benefit (CERB), targeted at lower-income workers, although direct transfers to lower-income families have also been utilized. The popularity of CERB as a short-term income support and criticisms of CERB as a longer-term support added fuel to arguments over the design of a potential guaranteed basic income (GBI) that would protect the incomes of all Canadian families.

Against this backdrop of rising popular support for a GBI, there was also a lack of support and often opposition from influential bodies and empowered decision makers. The April 2021 federal budget outlined a new set of priorities for the economic recovery from the pandemic that excluded any mention of a GBI. The federal Parliamentary Budget Officer released a report that showed a federal GBI with benefit rates estimated at $16,989 for a single person could reduce poverty rates by 50 per cent, but at a high cost (close to $90 billion).[1] The Fraser Institute also highlighted the costs of a universal basic income as prohibitive for the federal government to take on (Fuss, Palacios and Eisen 2020). Prior to the April 2021 federal budget, a thorough vetting of the issue by the British Columbia Expert Panel on Basic Income (Green, Kesselman and Tedds 2020) led to the conclusion, widely reported, that the province should not adopt a basic income and should concentrate instead on addressing poverty and advancing social justice in the province through reforms to the myriad existing supports and services provided by the province.[2] Are we to conclude that the momentum for a basic income is declining and welfare reform and social policy should move on to other, more promising initiatives for addressing the prevalence and depth of poverty? We think that conclusion is premature and that, in fact, the case for a federal GBI has grown stronger in the context of the B.C. Task Force report. In the remainder of this paper, we set out reasons for this contention.[3]

In this paper, we take on the task of investigating the feasibility of a tax-administered federal basic income (BI) with the purpose of making life better for working-age Canadians. If the goal of the paper looks familiar, then that is because we have adapted the 2019 terms of reference for the B.C. Expert Panel on Basic Income to the federal

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1 https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-001-S--distributional-fiscal-analysis-national-guaranteed-basic-income--analyse-financiere-distributive-un-revenu-base-garanti-echelle-nationale.

2 Wayne Simpson was the author of a research paper commissioned by the expert panel (Simpson 2020) but was not involved in the writing of the final report.

3 Boadway, Cuff and Koebel (2019) and Koebel and Pohler (2019) also discuss why a provincial basic income is likely not feasible.

context, where consideration of a BI makes more sense than for a single province.[4] In particular, we consider the viability of a basic income for working-age Canadians through simulations of a range of basic income models to identify impacts and financial implications. We then consider how a federal BI transfer to individuals can support provincial poverty-reduction goals with the aim of reducing incidence of low income and improving health, housing and employment in Canada. The idea here is that the federal government uses its revenue powers to provide income transfers to individuals to create more fiscal capacity for provinces to do the other cash and in-kind social supports and allow for greater provincial benefit targeting. This has been done with federal pensions for seniors and with cash benefits to households with children. The cost-effectiveness of this BI approach could be evaluated in comparison to an alternative federal cash transfer to provinces to support poverty-reduction goals.

We see our work focusing on a federal GBI as consistent with the recommendations of the 2020 report of the B.C. expert panel and supporting the goals and preferred approaches of that panel in advancing social justice in British Columbia. Our study seeks to answer complementary questions to those posed to the expert panel around how to leverage the greater revenue power of the federal government to support provincial poverty-reduction goals. We do consider how a federal basic income can allow for different purposes and targets for provincial income and social supports once some portion of income needs is met with a federal BI. The provinces would be responsible for residual needs under a federal BI, but also, depending on the details of the plan, have “spending room” created with the social assistance “savings” arising from the federal BI.

The remainder of the paper and our argument is organized as follows. In the next section, we set out the principles of a GBI and discuss the options both in terms of standalone plans and as a guiding principle in developing effective income-support systems. Section 3 then sets out the challenges and options for advancing a GBI, and Section 4 provides illustrative microsimulations of possible plans. Section 5 summarizes the argument and sets out our recommendations.

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4 In 2018, the B.C. government created an expert committee to “Test the feasibility of a basic income in BC and help make life better for British Columbians.” The terms of reference for the panel addressed “Making life more affordable… (and therefore to) Design and implement a province wide poverty reduction strategy that includes addressing the real causes of homelessness, including affordable accommodation, support for mental health and addictions and income security.” One goal for the poverty-reduction strategy was to design and implement a basic-income pilot to test whether giving people a basic income is an effective way to reduce poverty and improve health, housing and employment. In 2019, the terms of reference for the panel had two tasks: “consider the viability of a basic income in BC and support the simulation of various basic income models in BC to identify impacts and financial implications,” and “look at BC’s existing income and social support system and how elements and principles of a basic income could be used to transform and enhance it” (Green, Kesselman and Tedds 2020). Similar goals framed two earlier studies: Boadway, Cuff and Koebel (2019) and Koebel and Pohler (2019).

2. GUIDING PRINCIPLES: THE ABCS OF A GUARANTEED BASIC INCOME

A guaranteed basic income is often conceived as a grand standalone plan, a plan "in and of itself" and "as a policy tool on its own." Modern history of the basic income often begins in the United States, with Friedman's (1962) comprehensive proposal for a negative-income-tax plan to address poverty, which received strong support from prominent American economists and former president Johnson's Council of Economic Advisers, leading to then president Nixon's bold but ultimately unsuccessful proposal for a Family Assistance Plan to reform U.S. welfare in 1971 (Simpson 2021). Subsequent development of the concept of a universal basic income in Europe to address social inequality more broadly was also conceived in these terms as a separate and distinct new program. Yet the GBI can also be conceived as a set of modern guidelines for the development of income-support policy, which may have a more practical application to the reform of income-assistance programs today. A GBI can be conceived to be generous enough to displace the need for other income and social supports creating a single program, or it can be established as a component of a system of supports.

What are the GBI guidelines? A GBI creates a universal income floor, or minimum income, with consideration for poverty thresholds, and with transfers that are not means-tested but may be income-tested. A means test typically involves the assessment of a person's employability, skills, assets and level of education, but can include other factors, such as an assessment of other adults in the family, as a way for program administrators to target income assistance more deeply. Conversely, an income test involves only the determination of a person's or family's income. The majority of provincial income and in-kind supports are means-tested, and eligibility may be conditional on expectations to work, if able.[5] A federal tax-administered GBI would solely be tested through income, with no explicit requirement or condition to seek work.[6] This is the source of a GBI's administrative simplicity and its reduction of stigma for assistance recipients.

The Basic Income Canada Network refers to two models, the universal-basic-income (UBI) model of a taxable benefit payable to every individual regardless of income, and the guaranteed-basic-income model (GBI), which provides a maximum benefit to those with the lowest incomes and gradually reduces the benefit as incomes rise, such that those with higher incomes receive no benefit.[7] The GBI model is more familiar to Canadians in its origin as the negative income tax and its inspiration for the design of two major Canadian social experiments, the Manitoba Basic Annual Income Experiment (Mincome) and the Ontario Basic Income Pilot. The GBI model seems most appropriate for addressing poverty, as the UBI model directs its benefits to the wider population

5 Ontario historically had legislation obligating adult children to support parents. Provincial and local "relief" to indigent elderly was tested on the children's ability to pay, or the abrogation of responsibility of children (Struthers 1995).

6 The decision must still be made as to whether the income test is based on an individual's income or the income of the individual's household.

7 https://basicincomecanada.org/what_is_basic_income/.

and therefore provides much smaller benefits to those with lower incomes for a given budget (Honkanen 2014).

While the GB I model is generally preferred in North American discourse on a basic income, it is not as simple as the UBI model. The origins of the GBI model in the negative-income-tax schema are motivated by poverty defined in family terms: an individual is poor if the individual lives in a family that has insufficient income to purchase the basic necessities of life. In Canada, this was articulated in the development of the Low Income Cut-Offs by Statistics Canada in the 1960s, which determined the level of income at which family expenditure on the basic needs of food, clothing and shelter would exceed 70 per cent of income on average (Podoluk 1968), and which constituted an unofficial poverty standard until recently. Thus, while the UBI would pay a common taxable benefit to everyone, the GBI model would need to define what is meant by a family and what is meant by income, and would need to establish a negative tax or benefit-reduction rate on the maximum benefit. As the income-maintenance experiments in the U.S. and Canada illustrated, these decisions are neither straightforward nor inconsequential, and design matters (Simpson 2021).

These, then, are the principles of a guaranteed or GBI model, generally borrowed from the U.S. and Canadian basic-income websites[8]: (i) universal eligibility for regular, by which one would mean at least monthly, government payments (ii) with a guarantee or minimum income floor based on family size and composition, in accordance with poverty standards that would (iii) decline or taper according to a negative income tax or benefit-reduction rate applied to family income, and (iv) would not have any employment conditions.

To this list of principles might be added some other considerations. First, the benefit-reduction rate on family income should not provide a strong disincentive to work. Often, this consideration for a GBI is framed in terms of the introduction of a new disincentive for work when, in practice, incentives for work under a GBI need to be considered in the context of the work disincentives of existing transfers, such as social assistance. Although weak work-disincentive effects were found in the income-maintenance experiments and in subsequent basic-income pilot projects (Simpson 2020), it is difficult to argue that the marginal effective tax rates of close to 100 per cent associated with social assistance programs such as B.C. Income Assistance do not constitute a significant barrier to labour force attachment for welfare recipients. The income-maintenance experiments of the 1970s addressed this question by restricting consideration to rates between 30 and 80 per cent around a consensus midpoint of 50 per cent, in line with Friedman's (1962) original proposal. In the absence of further experimental clarification, it seems that a useful heuristic would be to aim for a rate of 50 per cent that would provide stronger employment incentives than current Canadian social assistance programs do.

8 https://usbig.net/about-big/ and https://basicincomecanada.org/what_is_basic_income/.

A second consideration for the development of a GBI should be its simplicity for the end user. Current provincial income-assistance programs, or welfare more generally, are administratively complicated, with hundreds of rules and corresponding benefit rates and dozens of specialized benefits. People in these programs are also regularly profiled and it is up to the discretion of the income-support worker to refuse, discontinue or suspend eligibility if they determine a person has refused to seek or to accept employment, training, or rehabilitative measures, or if the person has failed to comply with any of the myriad terms or conditions of the program (Human Services Alberta 2021).

The attractiveness of a GBI lies in its simplified structure to address income poverty in comparison with current income-assistance programs that also provide regular benefits. Part of that simplified structure is the elimination of work conditions, but there are also issues around the ease of access to benefits. In addition to the administrative burdens imposed by current income-assistance programs, there are also barriers to employment through high benefit-reduction rates and low maximum thresholds. There is also little opportunity for people on income assistance who want to work, but have mild barriers or are unsuited for full-time standard employment, as they can never earn enough to leave the program entirely. The B.C. expert panel provides an extensive discussion of the myriad federal and provincial programs that comprise the current income- and social-support system in B.C., the various departments and points of access to these programs, and the complexity of the benefits and services provided. To that end, basic-income proposals from the time of Friedman (1962) have assumed a payments system derived directly from the system of income taxation to sidestep these bureaucratic layers. Mirrlees (1971) and successors formalized a system of optimal taxation that, under certain reasonable conditions, included a negative income tax in the form of a refundable tax credit for those with low market incomes. Subsequent technological advance and program development have made the case for delivery of a GBI through the tax system even stronger. A tax-system-based GBI would need to be administered and delivered by the federal government in Canada, given the centrality of the federal government in designing and implementing tax structures and collecting tax revenue in Canada. Further, the federal government's revenue powers must generally be balanced against the lower revenue powers and greater spending responsibilities of the provinces.

Although there should be universal eligibility for a GBI, we also need to consider that successful and popular targeted basic-income programs for the elderly and for families with children already exist in Canada. While these programs might be folded into a new, comprehensive, federally supported GBI, an attractive alternative would be to introduce a basic-income program for those non-elderly adult Canadians not covered by existing arrangements. The GBI need not fully displace the need for provincial social supports and other targeted transfers for many practical reasons, including responsivity of supports to short-term changes in circumstances. At the same time, we see a federal GBI as a potential change to the income-support system that complements and enhances the capacity of provinces to pursue more comprehensive welfare reforms. We see several advantages to this approach, and the options we consider adopt this incremental approach to the completion of a GBI for Canada.

A GBI will need to exist along with a wide array of other in-kind and targeted social supports and cash transfers. For example, Canadians aged 65 and over have a GBI through a (largely) universal demogrant benefit through Old Age Security (OAS), and an income-tested benefit through the Guaranteed Income Supplement (GIS). The combined value of OAS and GIS exceeds the maximum benefits available to Canadians under age 65 through social assistance. In 2018, 6.5 per cent of Canadians aged 55–64 reported social assistance benefits on their tax forms, for an average benefit of $10,300. In the same year 6.7 per cent of Canadians 65 and over reported social assistance benefits averaging $2,200. Canada's most generous BI can be seen as reducing reliance of low-income households on provincial social assistance, but it has not replaced it.[9]

3. WHY A GBI SHOULD BE FEDERALLY ADMINISTERED

Since a significant portion of current taxation authority and income benefits lies under federal jurisdiction, federal participation is an important, perhaps essential, part of any discussion of a basic income in Canada. First, as Boadway, Cuff and Koebel (2019) and Koebel and Pohler (2019) argue, a provincial basic income is likely not feasible. The B.C. expert panel report provides comprehensive explanations for the weakness of the case for a GBI implemented by that province on its own. Part of the panel's concern was that the likely best way to introduce a GBI through the tax system would provide limited capacity to deliver a basic income. B.C.'s tax structure has a low personal disposable amount and a low initial tax rate, which means that elimination of nonrefundable provincial tax credits would finance only a very modest basic income. As Stevens and Simpson (2017, Table 13) show, the current provincial tax structures in other provinces would provide a more generous basic income, especially in Alberta, if a GBI were funded by the conversion of nonrefundable tax credits to refundable tax credits. But given the much larger role of federal taxes, it follows that more could be done to create a GBI through federal tax restructuring (Simpson and Stevens 2019). The B.C. expert panel recommended that the province "add its voice to calls for reform" of the federal tax and transfer system that would be necessary to facilitate a basis for a GBI for the working-age population (Green, Kesselman and Tedds 2020, 37).

The federal government also has a longer track record than the provinces do in creating and administering GBI transfers, working in partnership with the provinces. OAS and GIS for Canadians 65 and over are a prominent example, but Canada also has a viable model for federal-provincial-territorial co-operation in BI-type transfers with the National Child Benefit Initiative (NCBI). Arising from the parliamentary motion to eradicate child poverty by the year 2000, the NCBI working group was formed during the first Chrétien Liberal government, with three objectives that translate well to a discussion of a more comprehensive basic income: to decrease poverty, encourage labour market participation and improve the efficiency of the federal and provincial/territorial child benefit programs, especially monetary and administrative barriers to

9 Author's calculations from Statistics Canada, Table 11-10-0039-01, "Tax filers and dependants, seniors with income by source of income and age."

work that constitute what is termed a “welfare wall.” By 1997, the governments agreed to replace provincial and territorial child-welfare benefits with a national platform of income-tested child benefits, while allowing provinces to reinvest any savings in social assistance in complementary programs targeted at improving work incentives, benefits and services for low-income families with children. Ensuing federal budgets increased the benefit levels and income-eligibility thresholds for both the child tax benefit and the National Child Benefit Supplement, an earnings-supplement program intended to support families with children but structured to provide the greatest support to low-income families.

Evaluations of the NCBI indicated that it had reduced the incidence and depth of poverty among both lone-parent and dual-parent families with children. The NCBI design, which had focused on a reduction in the welfare wall and other barriers to employment, had succeeded in making work more financially attractive than social assistance for families with children, such that dependency on social assistance among families with children had declined (Federal, Provincial and Territorial Ministers Responsible for Social Services 2005). The Organization for Economic Co-operation and Development singled out the NCBI for improving efficiency and co-ordination in federal, provincial and territorial programming. Clientele surveys and focus groups lauded the administrative simplicity of the NCBI payments. While it must be noted that reducing poverty for children is less contentious than reducing poverty for working-age Canadians, the success of the federal-provincial-territorial negotiations that paved the way for the Canada Child Benefit (CCB), a simple, more generous and income-tested refundable tax credit, can only encourage further dialogue on a more comprehensive GBI plan for all Canadians. The federal government should be encouraged to initiate that dialogue in the context of the glaring gaps in income support exposed by the pandemic, and of the passage of the Poverty Reduction Act in 2019, which sets an ambitious goal to reduce the poverty rate from 12 per cent in 2015 to six per cent in 2030. The provinces, in turn, should welcome discussions that address social assistance benefits and caseloads, if they are accompanied by federal funding directed at reducing poverty, enhancing employment incentives and harmonizing income-support programs in the spirit of the successful NCBI.

A second set of considerations important for the design of an effective GBI for working-age Canadians should be addressed by a meeting of federal, provincial and territorial authorities. We would note that many of the issues would be similar to those encountered by the NCBI working group, so we have experience with resolving them. First, any GBI scheme relying on refundable tax credits, which many see as the most effective poverty-reduction model, must address the question of barriers to tax filing. An important research highlight from the B.C. expert panel was that perhaps one in eight Canadians do not file taxes in any one year, although the percentage who never file is likely much smaller, in the range of three to six per cent. While this is an important consideration in the development of a GBI, we do not see it as prohibitive. Whatever the federal government and provinces can do to reduce barriers to tax filing, including the development of an identification and verification platform for non-filers to increase access to benefits through the tax system, should be part of any federal-provincial-territorial discussions on a GBI. Tax filing does not constitute a greater barrier to benefits than the provincial benefit-enrollment systems already in place, and the barriers can be addressed by motivated participants in the GBI design process. Indeed, the federal government may have already taken an important step to increase tax-filing rates. Following initiatives in countries such as Germany, Japan and the U.K., the April 2022 federal budget announced plans to introduce free automatic tax filing for simple returns.[10] The proposed policy change would see CRA complete simple returns using the income data and other data already transmitted to the agency by employers and other government agencies. Individuals who currently miss out on benefits because they do not file, principally low-income Canadians, would be most likely to benefit from this undertaking.

An issue associated with the distribution of benefits through the Canada Revenue Agency is the slow response of the current tax system to changes in family economic circumstances. The current social assistance system is more responsive than annual reconciliation of benefits administered through the tax system, although the responsiveness comes with the costs of "barriers to access associated with complexity and lack of respectfulness associated with the eligibility testing inherent in focused supports" (Green, Kesselman and Tedds 2020, 22–23). Any meeting of federal, provincial and territorial authorities to institute a GBI would have to pay serious attention to this issue. Some accommodations to tax reconciliation might be possible, if only to improve the sharing of tax information with the provinces as the panel suggests, but here is where the role of the provinces would be particularly important in streamlining their own processes to provide emergency funding to families whose circumstances change within the taxation year. An understanding, not now present in the CCB arrangements, would have to be reached on the responsibility of provinces to continue to provide what was once termed emergency relief, along with guidelines as to the adequacy, rates of taxation and conditions that could be applied. These emergency benefits might require provincial distribution outside the tax system, as income assistance is currently provided, but might also be delivered as adjustments to the benefits provided within the tax system through federal-provincial co-operation. Variation, already present among the different provinces' social assistance systems, could provide lessons for better management of this challenge.

Once the pandemic recedes and other economic and social issues move to the public forefront, a meeting of federal, provincial and territorial authorities could be convened, provided that the federal government was willing to put significant new money on the table to improve the well-being of those in poverty, or to reduce poverty and its adverse effects, while at the same time enhancing employment incentives and harmonizing income-support programs in the spirit of the successful NCBI. The outline of a proposed agenda of issues for consideration at this meeting should reflect at a minimum both the principles of a GBI covered in Section 2 and the taxation issues discussed in this section. The issues start with regular payments to a wider spectrum of Canadians that would significantly enhance the accessibility and adequacy of current federal, provincial and territorial income support and plug current gaps. They then

10 https://budget.gc.ca/2022/report-rapport/chap9-en.html#wb-cont.

extend to a consideration of the trade-off between guarantee levels that address adequacy and benefit-reduction rates that target low-income families and provide work incentives. Arrangements need to be made to reduce barriers to eligibility for receipt of benefits, including work conditions. Similarly, arrangements need to be made to reduce barriers to tax filing to make the payment of benefits as inclusive as possible. And work needs to begin to ensure that the responsiveness of existing provincial assistance programs is improved and not compromised. As in the past, provisions would likely be needed for provinces to opt out of the plan, provided that their plan adhered to national standards to be eligible for federal funding.

4. OPTIONS FOR THE THIRD GBI PHASE FOR CANADA

The concept of a basic income delivered by refundable tax credits is neither new nor untried in Canada, at least in a targeted sense. Well ahead of its time, the federal government instituted the GIS in 1967 to address poverty among the elderly. The GIS was initially developed with a guarantee of a 40-per-cent supplement to OAS for those with no other source of income, and a benefit-reduction rate of 50 per cent to target the lowest-income seniors. A very popular program, the GIS has ensured that poverty among elderly Canadians is low relative to non-elderly Canadians and the elderly in other nations (Osberg 2001). A second targeted phase of basic income, the CCB, was instituted in 2016 for low-income families with children. The CCB is more complex, and less targeted to those with low incomes than the GIS, but its design is consistent with GBI principles for families with children. The CCB offers a guarantee in the range of $500 per child per month, depending on age, with benefit-reduction rates that vary from three to 23 per cent, depending on the age and number of children.[11] The CCB has been credited with lifting 300,000 children out of poverty during the Liberals' first term (Baker, Messacar and Stabile 2021). Both the GIS and the CCB provided vehicles for emergency COVID-19 relief to low-income families and seniors in 2020.

While the GIS and CCB may be considered the first two phases of a basic income, a tentative foray into a third phase already exists in the form of the federal refundable sales tax credit. The credit, introduced in 1986 as a modest annual payment for low-income families, became the Goods and Services Tax credit (GSTC) shortly thereafter. The new GSTC was paid quarterly but remains modest: scheduled annual payments are $456 for single Canadians, $598 for couples, and $157 for each child under 19 in 2021–22, with a benefit-reduction rate of five per cent for family incomes exceeding $38,892.[12] The options discussed below cancel the GSTC and incorporate its budget of $5.4 billion into the new GBI options we study.

This third phase of basic income would have to be the product of federal-provincial-territorial negotiations along the lines discussed in Section 3. The GBI would be

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11 Government of Canada, Canada Child Benefit (2016), at https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2016-growing-middle-class/canada-child-benefit.html.

12 https://www.canada.ca/en/revenue-agency/services/child-family-benefits/goods-services-tax-harmonized-sales-tax-gst-hst-credit/goods-services-tax-harmonized-sales-tax-credit-calculation-sheet-july-2021-june-2022-payments-2020-tax-year.html.

designed for non-elderly adults 18 to 64 years of age, although the payments (probably monthly, like the CCB and OAS/GIS benefits) would be combined with other benefits paid through the tax system, such as the CCB for families with children. Discussions of a GBI for non-elderly adults should be assisted by microsimulation evidence on the impacts and costs of proposed plans. This section provides illustrative evidence from the latest version (version 28.1) of the Social Policy Simulation Database and Model (SPSD/M) for options that are consistent with our discussion in Section 3. This version of SPSD/M is based on 2016 income data, thus capturing the impact of the CCB on incomes and poverty in Canada, with the results projected to 2022.[13] It is also the first version that offers the opportunity to measure poverty using the Market Basket Measure (MBM), now Canada's official poverty measure, as laid out in the Poverty Reduction Act.

The options that we consider differ in terms of whether a federal GBI *supplements* or *replaces* provincial social assistance (SA) benefits. For each option, the federal GBI is financed by a reduction in the federal basic personal nonrefundable tax credit and cancellation of the GSTC. The SA supplementation options are achieved by the provincial SA programs *not* clawing back their benefits by the value of the GBI. *Full* supplementation is achieved by the federal government *not* including the value of SA benefits in the definition of family income used to claw back the GBI while *partial* supplementation occurs when SA income is included in the definition of family income used to claw back the value of the GBI.[14] By comparison, the SA replacement options feature the provinces clawing back their SA benefits by the value of the federal GBI and the federal government excluding SA benefits in its definition of family income used to claw back the GBI. With the clawback of SA benefits, provincial SA programs will diminish in caseloads and in cost, as was the case for many provinces when CERB was introduced. To respond to those whose income fluctuates and who do not file a tax return, however, some form of a provincial last-resort income support will have to exist temporarily until appropriate reforms are made to improve the accessibility of benefits through the tax system. How the federal and provincial governments decide to use the savings accruing from the clawback of SA benefits distinguishes the sub-options. The full set of options is as follows:

SUPPLEMENTATION OF SA BENEFITS (RECIPIENTS ARE ELIGIBLE FOR THEIR ENTIRE SA BENEFIT AND A GBI BENEFIT)

- **A.1** The GBI program excludes SA benefits in its definition of family income to claw back GBI benefits.
- **A.2** The GBI program includes SA benefits in its definition of family income to claw back GBI benefits.

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13 To the extent that the projections reflect the impact of COVID-19 on the economy, they may underestimate the recovery and labour market outcomes beyond the pandemic.

14 A valid concern with plans involving supplementation of SA benefits is that the benefit-reduction rates for SA and the GBI are combined and the work-disincentive effects of SA, the so-called welfare wall, are exacerbated. This should be a topic of conversation in any discussions between the federal government and the provinces and territories, but only a small proportion of SA recipients work and earn income beyond the monthly income exemption level and the effect on our simulations is negligible.

REPLACEMENT OF SA BENEFITS (SA IS REPLACED BY THE GBI)

- **B.1** Provinces retain the SA program savings and invest them in programs of their choosing. This was the arrangement initially negotiated by the National Child Benefit program in 1998. Later, most provinces switched to option A.2 by ending the clawback of the benefit.
- **B.2** Provinces and the federal government agree to a reduction in the sizes of the Canada Health Transfer and Canada Social Transfer equal to the savings achieved by the clawback of the SA benefits. Those savings are reflected in lower federal expenditures to fund the GBI.

Within these options, there are an infinite set of options for defining the GBI, depending on the level of generosity (the income guarantee) and level of targeting (the benefit-reduction rate) selected. While the B.C. expert panel provides a very large set of simulations that explore some of these options for the B.C. case, we adopt a more limited approach that allows us to explore the federal-provincial arrangements embedded in our four options above. Recognizing that the GBI will provide support in addition to provincial social assistance and other existing federal and provincial income supports, we choose an income guarantee of $12,000 for a single adult and $16,970 for a two-adult family that is 51 per cent of the national weighted MBM.[15] We also set the benefit-reduction rate at 34 per cent to establish an exit level for the GBI, the income level at which benefits are phased out, that is 150 per cent of the MBM threshold; i.e., $35,294 for singles and $49,912 for a two-adult family. This rate also recognizes that our GBI overlays existing programs and tax structures and aims to keep marginal effective tax rates (METRs) moderate. As we show below in our simulation results, these parameters deliver significant poverty reduction without burdensome taxation. The simulated options are financed by the elimination of the GSTC and by reductions in the personal-income-tax basic exemption. The elimination of the GSTC provides revenue of $5.38 billion. The remainder of the revenue required is provided by reduction of the basic exemption: a reduction to $352 to generate $45.53 billion for options A.1 and B.1, a reduction to $1,811 to generate $40.21 billion for option A.2, and a reduction to $3,010 to generate $35.91 billion for option B.2. Table 1 considers these options and their impact on incomes by quintile and on poverty without behavioural response. The impact on poverty is shown in terms of the percentage reduction in the rate of poverty, the percentage reduction in the depth of poverty, and the sum of the changes in the rate and depth of poverty, which we refer to as the intensity of poverty. Using the intensity of poverty as our metric, the results in Table 1 show that, in terms of their cost effectiveness, the SA-supplementation options A.1 and A.2 are superior to the SA-replacement options B.1 and B.2: The costs per percentage-point reduction in the intensity of poverty are $810 million for supplementation option A.1 and $740 million for A.2, compared to $940 million and $930 million for replacement options B.1 and B.2.

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15 The additional $4,970 for the second adult is based on the square-root-equivalence scale that is commonly used for family-size adjustment (https://www.oecd.org/els/soc/OECD-Note-EquivalenceScales.pdf). Since children in the family receive the CCB, which is not included in the definition of net family income used to claw back the GBI, only adults in the family are used to determine the size of the GBI benefit.

A significant problem with these estimates is that they assume no behavioural response to receipt of the GBI. The income-maintenance experiments of the 1970s provided careful and extensive evidence of a limited labour-supply response to negative-income-tax treatments and contributed to an emerging consensus around the likely size of this response in other circumstances (Simpson 2020 and 2021). More recent reviews of the evidence by McClelland and Mok (2012) for the U.S. Congressional Budget Office, and by Green (2020) for the B.C. expert panel, among others, confirm the consensus around small, but non-zero labour-supply elasticity estimates. There is also evidence that labour-supply response is the principal component of the more general response to benefits encapsulated in the elasticity of taxable income (Stevens and Simpson 2018). Using the elasticity estimates in McClelland and Mok, which we have used before (Stevens and Simpson 2017), we readjust the results for our four options based on the labour-supply response to the GBI. These results are shown in Table 2.

Table 2 presents the post–labour-supply impacts of the GBI. Table 2 tells the same story as Table 1, but at a slightly higher cost as a result of higher GBI benefits arising from lower earnings among low-income earners. Federal revenue is also higher, mainly because of higher earnings among higher-income adults, as shown in Table A.2 in the appendix. Those higher revenues are not sufficient to offset the higher GBI benefits, resulting in a small deficit, indicated as the "federal revenue gap" in Table 2. Nevertheless, the supplementation options continue to be a bit more effective than the replacement options in reducing the rate and depth of poverty for the least cost, using our cost per percentage-point reduction in the intensity-of-poverty measure. The least expensive options are A.1 and A.2, which cost $1.07 billion and $920 million, respectively, per percentage-point reduction in the intensity of poverty.

Table 1. Pre–Labour-Supply Impacts of the Options for Nuclear Families — Canada 2022 — Using Reductions in the Federal Basic Exemption, Cancellation of the GSTC and Reductions in SA Benefits as the Revenue Sources

	Supplement SA		Replace SA	
Performance Criteria	**A.1**	**A.2**	**B.1**	**B.2**
Gross Cost of GBI ($Billions) • Average benefit per family ($) • Per cent receiving a benefit	$50.91 $7,491 40.9%	$45.59 $6,771 40.4%	$50.91 $7,491 40.9%	$50.91 $7,491 40.9%
Total Revenue ($Billions)	$50.91	$45.59	$50.91	$50.91[5]
Personal income tax + GSTC savings ($Billions)[1]	$50.91	$45.59	$50.91	$41.29
SA Savings ($Billions)[2]	$0.00	$0.00	$9.62	$9.62
% Change in Disposable Income by Adjusted Family Disposable Income Quintiles[3]				
• Quintile 1 (<$19,003)	+54.497	+50.4	+43.7	+45.3
• Quintile 2 ($19,003–$32,071)	-0.9	-1.6	-2.5	-1.3
• Quintile 3 ($32,072–$46,647)	-4.7	-4.3	-4.8	-3.9
• Quintile 4 ($46,648–$67,487)	-3.6	-3.2	-3.6	-2.9
• Quintile 5 ($67,488+)	-1.8	-1.7	-1.8	-1.5
• Total	+1.0	+0.9	+0.1	+0.8
Per Cent Change in Poverty				
• Rate	-53.6	-50.0	-40.0	-42.6
• Depth	-20.1	-23.5	-23.5	-22.6
• Intensity of poverty[4]	-63.0	-61.7	-54.1	-54.4
Cost ($Billions) Per Percentage-Point Reduction in the Intensity of Poverty	$0.81	$0.74	$0.94	$0.93

Notes:

1. For each of the options, the cancellation of the GSTC provided additional revenue of $5.38 billion and a top-up of $6,000 was provided to persons claiming the disability benefit.
   For option A.1, the basic exemption was lowered to $352 to generate tax revenues of $45.53 billion.
   For option A.2, the basic exemption was lowered to $1,811 to generate tax revenues of $40.21 billion.
   For option B.1, the basic exemption was lowered to $352 to generate tax revenues of $45.53 billion.
   For option B.2, the basic exemption was lowered to $3,010 to generate tax revenues of $35.91 billion.
2. For option B.1, the savings accrue to the provinces. For option B.2, the savings accrue to the federal government. SA savings were calculated as the lesser of: GBI benefit x 10.4 months of the year; or the SA benefit. The average length of time an adult is on SA during the year is 10.4 months.
3. After tax and transfer, nuclear-family income is adjusted by the square root of family size.
4. The intensity of poverty is measured as the per cent change in the adjusted depth of poverty, which includes all those who left poverty due to the GBI, and counts their depth of poverty as zero. It captures the impact of the change in the rate and depth of poverty.
5. The coincidence of figures for total revenue and gross cost of GBI indicates that the options are fully funded.

Table 2. Post–Labour-Supply Impacts[1,2] of the Options for Nuclear Families — Canada 2022 — Using Reductions in the Basic Exemption, Cancellation of the GSTC, and Reductions in SA Benefits as the Revenue Sources

	Supplement SA		Replace SA	
Performance Criteria	**A.1**	**A.2**	**B.1**	**B.2**
Gross Cost of GBI ($Billions) • Average benefit per family ($) • Per cent receiving a benefit	$52.93 $7,775 41.0%	$47.59 $7,055 40.5%	$52.93 $7,775 41.0%	$53.01 $7,783 41.0%
Total Revenue ($Billions)	**$51.49**	**$46.49**	**$51.49**	**$52.00**
Personal income tax + GSTC savings ($Billions)	$51.49	$46.49	$51.49	$42.38
SA savings ($Billions)	$0.00	$0.00	$9.62	$9.62
Federal Revenue Gap	**-$1.47**	**-$1.10**	**-$1.47**	**-$1.01**
Per Cent Change in Disposable Income by Adjusted Family Disposable Income Quintiles				
• Quintile 1 (<$19,003)	+53.2	+48.6	+42.0	+43.4
• Quintile 2 ($19,003–$32,071)	-2.4	+3.2	-4.0	-2.9
• Quintile 3 ($32,072–$46,647)	-4.8	-4.3	-4.9	-4.0
• Quintile 4 ($46,648–$67,487)	-3.6	-3.1	-3.6	-2.9
• Quintile 5 ($67,488+)	-1.8	-1.4	-1.8	-1.0
• Total	+0.8	+0.7	-0.1	+0.7
Per Cent Change in Poverty				
- Rate	-48.6	-45.1	-35.3	-38.4
- Depth	-1.5	-12.2	-7.9	-15.5
- Intensity of poverty	-49.4	-51.8	-40.4	-48.0
Cost ($Billions) Per Percentage-Point Reduction in the Intensity of Poverty	$1.07	$0.92	$1.31	$1.10

Notes:

1. The labour-supply effects were estimated assuming earnings were obtained when not on SA for two reasons. First, very few SA recipients earn income while on SA; and second, the SPSD/M does not record when an adult is on or off SA during the year.
2. The appendix presents the impact of the GBI on the marginal effective tax rates (METRs) and on wage earnings. The post-labour-supply family income was then calculated and used to determine the outcomes presented in this table.

The exploration of options in tables 1 and 2 involved the establishment of a specific income guarantee (51 per cent of the MBM) and benefit-reduction rate (34 per cent), corresponding to a specific exit level for the GBI (150 per cent of the MBM). An extension to our approach would be to fix one of these parameters and allow the other two to vary systematically, to identify response patterns and ultimately to identify those plans with the greatest impact on poverty for the money spent. A problem with this approach is that our results in tables 1 and 2 assume that the cost of the options would be covered by elimination of the GSTC and reductions in the basic exemption. Some of the new options to be considered would require additional revenue, such as eliminating other nonrefundable tax credits, raising personal income tax rates, and raising the federal Goods and Services Tax. Since the results of these simulations would depend on the method of financing them, they would not be comparable to our results in tables 1 and 2, and we have not pursued this line of enquiry further for this paper.

5. MAKING THE VALUES EXPLICIT FOR GREATER TRANSPARENCY AND OPENNESS

In public, the debate over basic income (BI) as a policy tool to achieve the objective of reducing poverty usually rests on costs and labour-supply disincentives. Costs require a normative benchmark to evaluate if they are large or affordable, and labour-supply disincentives could be addressed as an empirical issue to resolve with evidence. For both costs and labour-supply concerns with a BI, rarely are the underlying value positions made explicit. It's important to distinguish the value positions from the empirical policy issue for a more open and transparent discussion.

On the cost of a BI, the total expenditure is often shown as a standalone number, comparing that expenditure for reducing poverty with the alternative of spending nothing to reduce poverty, which is not the case in Canada. For a more accurate cost comparison, we argue that the cost of a BI should be considered against alternative expenditures of existing means-tested poverty-reduction transfers and programs, so decisions can be made to determine which is the better approach for reducing poverty.

Regarding concerns over labour disincentives of a BI, too often the "precautionary principle" is applied, which often supports remaining with the status quo. Labour disincentives would appear to be resolvable as an empirical issue, as the standard for sufficient evidence on BI and labour supply has been met, but here the challenge BI proponents face is what more can be done amid the lack of political will to run pilot programs or demonstration projects to generate the evidence desired. This leaves the debate stuck, and the policy discussion turns to one of risk management. The perceived risk then justifies adherence to the precautionary principle of avoiding introducing a new risk to the economy, the public treasury and society. This is not objective and rational decision-making, but a values-based objection to basic income, grounded in risk management.

The continuation of the status quo and the higher-than-necessary prevalence and depth of poverty comes with costs for individuals in poverty rather than risks. How does the reduction in those human costs get balanced against a labour market risk other than values? We can even place a value on how much we value protecting labour market incentives using the required expenditure on a BI, the mortality reduction that comes with reduced poverty, and different assumptions of how large the labour disincentives are using a value-of-statistical-life approach. Even if we value the labour-supply disincentives, we still need to state the values that allow us to compare, and prioritize, benefits, expenditures and risks with a BI versus the status quo.

Concern over labour-supply effects is also often a pretense for a value position common to the design of most welfare programs, but rarely made explicit, that government benefits are best directed towards the "deserving poor," that being children, the elderly and those with disabilities. This value position also holds that those of working age are better served through efforts to increase employment. As this objection to basic income is ideological, efforts to counter this objection with evidence is pointless, but when the values are hidden, this is often the case.

Sometimes, hypothetical questions are a way to help distinguish the value positions from valid empirical concerns. For example, regarding the tension over labour disincentives and BI, certain positions must be clarified. Is the government obligated to help everyone meet their basic needs? If no, then who should be helped to meet their basic needs? What should the form of help or support look like? On concerns over cost, at what point is the cost too high for providing a BI that drops poverty rates to historic low levels? Why is BI as a tax-transfer scheme framed as a cost rather than an expenditure, like pensions and other desirable programs such as health care? The answer to these questions provides the kind of nuance needed to have a healthy and more productive debate about basic income.

6. CONCLUDING REMARKS

In response to calls for a stronger, more efficient income-support system that addresses gaps made obvious during the pandemic, this paper illustrates how a guaranteed basic income delivered by the federal tax system for working-age Canadians can provide significant poverty reduction without significant work disincentives or burdensome taxation. We discuss how federal-provincial negotiations would provide a roadmap for delivering a GBI in partnership with the provinces and what issues would have to be considered. Anticipating how these negotiations might proceed in broad terms, we simulate two options that supplement provincial social assistance and two options that replace social assistance. We assess the impact of these options on disposable incomes and poverty reduction, their cost, and their likely effect on labour supply. We argue that the cost of our recommended GBI options, one that supplements provincial social assistance and does not allow SA income to be clawed back by the GBI, and another that claws back SA benefits to assist in funding the GBI, should be judged in comparison with the required federal transfers associated with alternative policy instruments that would be necessary to achieve comparable reductions in poverty. We urge policy-makers to consider a GBI of the sort we outline here that streamlines and simplifies the income-support system but exists alongside other important social supports already in place at the provincial level. A GBI is not a panacea for ending poverty, but it can make Canada more resilient by ensuring that low incomes do not prevent families from paying the rent and putting food on the table.

APPENDIX

Table A.1 shows the impact of the options on the marginal effective tax rates, while Table A.2 calculates the labour-supply effects of the changes in METRs on earnings using the methodology in Stevens and Simpson (2017).

Table A.1. Average Percentage-Point Change in Marginal Effective Tax Rates for Adults 18 to 64 with Wage Earnings Over $1,000, Canada 2022

Wage Income Decile	Pre-GBI METRs[2]	Percentage-Point Change in the METRs[1,2]			
		A.1	A.2	B.1	B.2
1	12.5	+34.9	+27.5	+34.9	+36.7
2	21.9	+33.2	+29.7	+33.2	+33.5
3	37.0	+21.7	+19.3	+21.7	+21.4
4	39.0	+17.2	+16.2	+17.2	+16.4
5	41.0	+5.5	+4.2	+5.5	+3.8
6	41.1	+0.9	+0.9	+0.9	+2.1
7	46.7	-5.1	-5.8	-5.1	-5.2
8	39.6	+2.3	+2.9	+2.3	-0.2
9	41.8	-0.3	-0.1	-0.3	-0.4
10	51.8	-2.9	-2.9	-2.9	-2.5
Total	**37.2**	**+10.7**	**+9.2**	**+10.7**	**+10.5**

Notes:

1. These are the combined effects of the financing of the GBI and the benefit-reduction rate.
2. As calculated by the SPSD/M Marginal Tax Rate Facility. SPSD/M is not sufficiently detailed with respect to SA monthly income to allow the calculation of METRs for individuals on SA, but few SA recipients work beyond the income exemption.

Table A.2. Average Per Cent Change in Wage Earnings[1] of Adults 18 to 64 with Wage Earnings Over $1,000 Due to the Change in the METRs, Canada 2022

Wage Income Decile	Pre-GBI Wage Earnings	Options			
		A.1	A.2	B.1	B.2
1	$4,447	-2.9	-3.8	-2.9	-0.9
2	$12,034	-6.3	-5.9	-6.3	-6.5
3	$20,787	-3.8	-3.4	-3.8	-3.9
4	$30,632	-2.8	-2.6	-2.8	-2.8
5	$40,330	-0.9	-0.6	-0.9	-0.6
6	$50,628	-0.1	-0.1	-0.1	-0.4
7	$61,443	+1.5	+1.7	+1.5	+1.4
8	$77,434	-0.5	-0.7	-0.5	+0.3
9	$99,978	+0.1	0.0	+0.1	+0.1
10	$181,789	+0.4	+0.4	+0.4	+0.3
Total	**$57,954**	**-0.3**	**-0.3**	**-0.3**	**-0.2**

Note:

1. As calculated by equations A.6, A.7, A.8 and A.9 of Stevens and Simpson (2017).

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