

## A Basic Income Guarantee for Canada

Case for the Standing Committee on Finance (FINA)

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### Introduction

Our existing income support system is both expensive and dysfunctional, relying on outdated assumptions about income security and the labour market. An income-tested Basic Income Guarantee (BI) would directly address the root cause of poverty - a lack of income - rather than relying on a complicated multitude of programs to address its symptoms. An effective BI would guarantee all Canadians an adequate income above the poverty line, replacing certain types of transfers (e.g., provincial assistance) while still working in tandem with employment and service-based social support programs.

Commitment to open, collaborative and evidence-based discussion needs to recognize the amount of research which indicates that a BI can help protect the health and financial security of Canadians and the Canadian economy. This research attests to the effectiveness of a BI in alleviating income insecurity while addressing pragmatic considerations about financing and implementing an affordable national program.

**This memo is divided into two parts:**

**Part I: Why a BI is an effective and efficient way to alleviate income insecurity**

**Part II: How a national BI can be affordable and financially sustainable**

### Part 1: Why a BI?

Canada's First Poverty Reduction Strategy set out a number of ambitious targets, including an objective of **reducing the poverty rate nationwide by 50% by 2030<sup>i</sup>**. Research indicates that a livable income floor, available to all Canadians through a national BI, can achieve these goals.

### A remedy for an ineffective and inefficient patchwork of support systems

Once designed, a BI-based income support program would be simpler to implement and more efficient than our complex system of eligibility-based transfer payments - a system which lets too many Canadians fall through the cracks. By tying benefits to conditions such as employment rather than income (excluding children and seniors), our current social safety net fails to provide adequate support to many Canadians. **For example, employed individuals make up the majority of those living in poverty (~54%), indicating that participation in the labour market is not enough to lift millions of Canadians out of poverty<sup>ii</sup>**. Precarious jobs and gig economies are growing with disproportionate representation by women, racialized people, indigenous people, immigrants, people with disabilities, older people, and youth.<sup>iii</sup>

**For those eligible, social assistance rates are below ~50% of the poverty line in many provinces, failing to lift people out of poverty<sup>iv</sup>**. Moreover, they do a poor job of encouraging labour market participation by **clawing back benefits at high tax back rates (or entirely) for every dollar of income earned through employment**. The bureaucracy of these programs is costly to operate, and their intrusive nature fails to treat recipients with dignity. Rather than empowering them to participate meaningfully in society, these programs can trap individuals and families in a cycle of poverty<sup>v</sup>.

### An income guarantee is a proven model with precedent in Canadian policy

Programs with characteristics similar to a basic income, namely the Canada Child Benefit (CCB), Old Age Security (OAS) and the

Guaranteed Income Supplement (GIS), have significantly reduced poverty while being politically popular. According to Statistics Canada, the child poverty rate in Canada decreased from ~15% to ~8% between 2012 and 2018, largely due to the enhanced CCB<sup>vi</sup>. On a similar note, the OAS/GIS system has helped keep poverty rates for seniors (~3%) significantly lower than the overall poverty rate (~9%)<sup>vii</sup>. A basic income for these populations has proven to be an effective and efficient strategy to meet poverty reduction goals.

### **The pandemic has highlighted the need for proactive rather than reactive policy**

While it's impossible to predict the future, we need to be prepared to respond to any unexpected events that may disrupt our society and labour market. This includes (but is not limited to) transitioning to a greener economy<sup>viii</sup>, job automation<sup>ix</sup>, growth of precarious and gig economies<sup>x</sup>, and future pandemics / crises.

A basic income can simultaneously reduce the poverty rate and guard against unexpected shocks in the future, acting as an automatic economic stabilizer and an insurance policy for everyone in Canada. It's uniquely positioned to lift millions out of poverty while ensuring that millions more who are income insecure don't sink below the poverty line in the event of economic shocks, whether personal or society wide. An unconditional, income-tested basic income promises all Canadians a decent standard of living, regardless of their current circumstances or unexpected events in the future.

## **Part II: A BI can be affordable**

Critics argue that a basic income is too expensive to be a realistic policy solution, pointing to high gross cost figures that are often taken out of context. These criticisms ignore several important realities to costing basic income, including its benefit-reduction rate as recipients' incomes rise, its ability to replace spending on other programs (e.g., provincial

social assistance) and the impact of downstream benefits (e.g., lower healthcare costs). Under the correct parameters, a BI can have a reasonable price tag, avoid deficit spending, and even pay for itself in the long run.

### **The Parliamentary Budget Office (PBO) estimates the net cost of a BI to be ~\$43 billion (or ~\$23 billion after accounting for savings from provincial social assistance)**

The PBO arrived at the ~\$43 billion figure in 2018 by using the same parameters as the Ontario Basic Income Pilot (OBIP) - an income guarantee of ~\$17,000 to every adult Canadian, clawed back at a rate of 50% for every additional dollar of income earned. Under these parameters, ~7.5 million Canadians would receive full or partial payments<sup>xi</sup>.

In addition to the spending identified in this report, OBIP was set up as an alternative to Ontario Works and the Ontario Disability Support Program. Replacing similar provincial and territorial programs across Canada would save an additional ~\$20 billion in current spending, reducing the net cost of a national BIG program to ~\$23 billion. That's similar to the amount the federal government spends on the enhanced Canada Child Benefit each year<sup>xii</sup>.

The PBO conducted a similar costing exercise in 2020 to estimate the net cost of a federal BI during the pandemic. Given lower incomes and higher unemployment, a BI program with the same parameters as the 2018 study was estimated to have a higher price tag if implemented during the pandemic - a net cost of ~\$30 billion between October 2020 and March 2021<sup>xiii</sup>. For context, the federal government spent ~\$80 billion delivering CERB over a similar six-month period<sup>xiv</sup>.

The PBO estimates provide us with two valuable takeaways. First, even if the specific costs of a BI will vary depending on the parameters of the program, it can have a reasonable price tag which merits consideration. Second, a BI can act as an automatic stabilizer which adjusts to the health of the economy and the needs of

Canadians. Spending will naturally decrease during an economic expansion (i.e., when unemployment is decreasing) and increase to support Canadians during recessionary periods (i.e., when unemployment is increasing).

### **Implementation of a BI can be a part of broader tax system reform, helping fund remaining costs while increasing its fairness**

A national BI can be fully funded if implemented as part of broader tax reform, enhancing the fairness of the tax system in the face of growing inequality<sup>xv</sup>. In discussing its projections, the PBO states that a “combined federal-provincial basic income system managed by an intergovernmental fiscal arrangement [can] replace some provincial transfers for low-income individuals and families (...) including many non-refundable and refundable tax credits, thereby reducing its net cost.”

In addition to the reallocation of certain tax credits, modest increases in upper-level income tax rates or the reduction in some tax expenditures, like the capital gains exemption, could be considered to ensure everyone in Canada pays their fair share, to name a few alternatives<sup>xvi</sup>. These adjustments would recognize the growing reality of inequality in Canada - despite the significant growth in overall wealth enjoyed by the Canadian economy over the last several decades, the average wage rate has essentially stayed constant (in real terms)<sup>xvii</sup>.

### **Downstream benefits from lower poverty rates are difficult to quantify, but financially and socially significant nonetheless**

A national BI is an investment expected to result in lower healthcare costs and decreased pressure on the criminal justice system.

Healthcare costs arguably present the most promising potential for future savings, making up an average of ~38% of provincial budgets across Canada<sup>xviii</sup>. Considering that public health expenditures on the lowest 20% of the population are more than double that spent on the richest 20%, even modest reductions in

poverty have the potential to materialize as significant cost savings<sup>xix</sup>. Provincial basic income pilots from OBIP to Manitoba in the 1970's have provided evidence supporting the effectiveness of basic income in improving health outcomes, with the latter finding an 8.5% reduction in hospital visits<sup>xx</sup>.

Furthermore, basic income has the potential to be more than just a poverty reduction program- it is an investment in our economic and social future. Basic income has the potential to stimulate the economy in the short-run<sup>xxi</sup>, alleviate food insecurity<sup>xxii</sup>, address the social determinants of health<sup>xxiii</sup>, address gender based equity issues<sup>xxiv</sup>, provide a safety net that would encourage education, entrepreneurship and innovation<sup>xxv</sup>, support our farm communities<sup>xxvi</sup>, reward unpaid socially-valuable labour, support our Arts and Heritage economies<sup>xxvii</sup>, assist in the transition to a greener economy, and prepare for continued job transitions / losses due to automation. We need to recognize and understand these benefits in order to build a healthier society and a stronger economy.

## **Conclusion**

As Canada emerges from the pandemic-induced recession, our government should look to implement effective policy that not only provides fiscal stimulus, but also ensures assistance goes to those who need it most.

An extensive body of evidence indicates that a BI in Canada can be an effective and affordable way to alleviate income insecurity. It directly addresses the problems created by income insecurity instead of reacting to the symptoms. We can look to decades of Canadian policy and research to lay the groundwork for an effectively designed national BI program - one that can be the foundation of a Just Recovery and support a resilient and sustainable economy moving forward. To ignore this evidence is to ignore our government's commitment to open, collaborative, and evidence-based discussion at a critical time for our nation.

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