

Guaranteed Annual Income: A Policy Alternative to Current Social Assistance

Written by Ryan Murray, University of New Brunswick

Executive statement

Current social assistance systems in Canada are inadequately addressing poverty, and substantial legislative reform is required to fix them. The Guaranteed Annual Income (GAI) is an alternative policy solution that would be a major improvement over the current social assistance systems in Canada. This document outlines five key reasons why and discusses key recommendations for moving forward on this policy.

Key reasons to implement a Guaranteed Annual Income:

- 1) Ensure that every Canadian has an income level sufficient to meet their basic needs.
- 2) Universal policy so that no Canadian is left behind.
- 3) Administratively simple and efficient.
- 4) Provides the opportunity to escape the poverty cycle.
- 5) Promotes the principles of autonomy, liberty, and dignity.

Key recommendations:

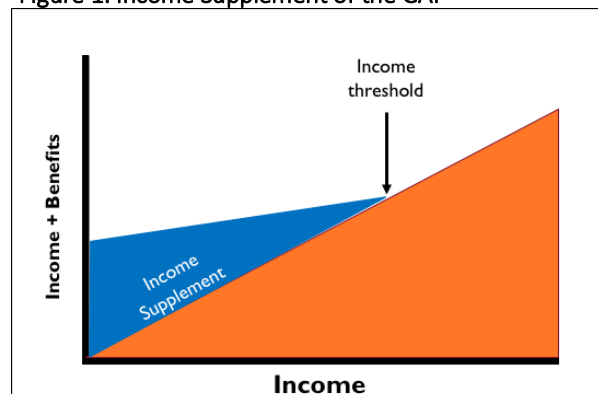
- 1) Advisory Council in the Implementation of a Guaranteed Annual Income.
- 2) Strategic implementation and monitoring of large-scale pilot projects.
- 3) Report on implementing the Guaranteed Annual Income in Canada.

Introduction

Despite Canada’s wealth and the billions of dollars it invests in social assistance, the social safety net is highly ineffective, with about 1 in 7 Canadians living in poverty,¹ a quarter of whom are children.² Poverty is a socially constructed social ill that is the single largest determinant of health,³ and higher inequality in society is associated with massive disparities in population health and social outcomes.⁴ This situation has far-reaching consequences, as poverty was recently estimated to cost between \$72-\$84 billion annually in Canada,³ due to costs in healthcare, social services, the criminal justice system, and lost productivity. It does not have to be this way; high levels of poverty are not inevitable. Government policies play a crucial role in eradicating poverty and primary importance should be placed on reducing the gap between the rich and the poor by assisting low income Canadians in achieving a decent standard of living through substantial legislative reform.

A Guaranteed Annual Income (GAI) is a promising alternative policy solution to the failing social assistance systems that has been supported for decades by economists, welfare theorists, and politicians on both the left and right of the political spectrum. This document provides a brief description of the GAI, specifically the negative income tax model, and explains why the implementation of a GAI policy would be a major improvement over the current social assistance systems in Canada.

Figure 1. Income Supplement of the GAI



What is the Guaranteed Annual Income?

The GAI is a social policy based on the foundations of equity, dignity, and social justice, designed to guarantee an income to every citizen that is sufficient to meet their basic needs. Although a GAI could be designed in a variety of ways, this document refers to the negative income tax model because it seems most promising. Essentially, this model of GAI is designed so that if one's income from all sources, based on their tax returns, falls below an income threshold deemed sufficient to meet basic needs, they would receive an income supplement topping them up to that threshold (Figure 1). At an income level equal to the threshold, people would not receive a supplement but also would not pay any taxes. Above the threshold, the progressive income tax system would kick in.

The supplement would be adjusted for household size, accounting for the variations in the cost of living per adult and child. It would also account for regional variations in the costs of living and be indexed to inflation to effectively reduce poverty over the long-term. By setting the income threshold above the poverty line, and making this policy universal, the GAI has the potential to single-handedly eliminate poverty. Further investigation into the specifics of the design must be conducted to determine the income threshold level and the rate to claw back benefits as income is earned.

Key Advantages Over Current Social Assistance Systems

1) The GAI would ensure that every Canadian has an income level sufficient to meet their basic needs.

Currently, even the best social assistance programs provide an income below the poverty line.⁵ In fact, the best Canadian programs provide an income within only 80% of the poverty line, whereas the worst only provide about 30% of the income required to 'achieve' poverty.⁶ This situation forces people on social assistance to choose between shelter or food, resulting in high rates of food insecurity,⁷ and often leading to homelessness. Setting the minimum income threshold at a level above the poverty line will ensure that every Canadian can afford the essentials necessary for a decent standard of living, such as food, shelter, and clothing.

2) The GAI would be universal so that no Canadian is left behind.

Social assistance systems do not help a large portion of Canadians living in poverty. This includes the "working poor", who are working but living in poverty due to labour market conditions such as low wages, underemployment, and precarious work.¹ With the rise of the digital age and increasing automatization of jobs, labour market conditions in Canada are becoming increasingly precarious. The unavailability of well-paying, full-time jobs is contributing to increasing inequality and poverty, which brings up many questions about how Canada is going to ensure an acceptable standard of living for marginalized Canadians going forward. The universality of the GAI would ensure that every Canadian living in poverty, including the working poor, has their basic needs met.

3) The GAI is administratively simple and efficient.

Current social assistance systems are governed by hundreds of rules, making them complex to implement and costly to taxpayers. Since the GAI would be implemented through the tax system, it would eliminate the high bureaucratic costs and the administrative burden existent in current social assistance systems through objectivity in assessing eligibility, simplifying administrative processes, and financial efficiency by targeting payments to low-income individuals. The simplified structure would also reduce the stress and anxiety of obtaining benefits for a population that is already under a lot of stress and, if designed correctly, would incur a cost that is comparable to or less than current social assistance systems.

4) The GAI provides the opportunity to escape the poverty cycle.

GAI could help eliminate the "welfare wall" created by current social assistance systems. The welfare wall is created when benefits are clawed back at a high rate proportional to earned income and when clients lose benefits such as prescription drug coverage due to employment, which both dis-incentivize work.⁸ The loss of assistance when someone applies for a student loan also dis-incentivizes education.⁸ With GAI, the claw back rate must be set so that people will be better off as they earn more income and the incentive to work is

maintained. A GAI would provide people with the freedom to choose their main activity, look for more meaningful employment, and pursue opportunities that will lift them out of the cycle of poverty. For example, getting an education is often someone's best chance at getting out of poverty, but people in poverty are less likely to have the financial ability to pursue an education. The GAI would give the poor an opportunity to build themselves a better life because the financial security that it brings allows them to take the necessary risks.

5) The GAI promotes the principles of autonomy, liberty, and dignity.

Current social assistance systems are highly paternalistic, requiring recipients to constantly jump through hoops and abide by rules that are monitored by case workers. This system of micro-management is ineffective and degrading to people receiving social assistance. Also, the concerns about "un-deserving recipients" obscures the structural barriers associated with the social determinants of health that create obstacles for vulnerable people.⁹ The GAI eliminates this micro-management, respecting the individual's autonomy and freedom to make personal decisions about their finances and lifestyle, reduces the stigma of receiving income support, and is a much more dignified approach to social assistance.

Conclusions and Recommendations

In order to be effective, the GAI should replace the current welfare policies in Canada, rather than serve as a patchwork to the current systems. However, there are opportunities for integration with current programs. Two forms of a GAI effectively exist in Canada already, the Guaranteed Income Supplement for seniors and the Canada Child Benefit for families with children, covering about a third of the population.⁸ It is time to take the logical next step of integrating these programs with the expansion of a basic income for all Canadians. However, the GAI is not a panacea for all problems associated with poverty and should be combined with other social policies such as increased minimum wages, employment support programs, affordable housing, and a national pharmacare plan.

The time has come for the Canadian Government to show leadership in eradicating poverty by implementing a GAI, not only because of the financial benefits of doing so, but because it is the morally right and fair thing to do. Therefore, the following actions are recommended:

Recommendation 1: Task Force on the Implementation of a Guaranteed Annual Income.

The Federal Government should establish a Task Force on the Implementation of a Guaranteed Annual Income, consisting of public policy experts and researchers representing all relevant public sectors, to study the feasibility and implementation of the Guaranteed Annual Income. The goal of the Task Force should be to implement a Guaranteed Annual Income across Canada by the year 2025.

Recommendation 2: Strategic implementation and monitoring of large-scale pilot projects.

Although empirical evidence exists on the effects of a GAI in Canada, most notably the MINCOME experiment in Manitoba during the 1970's,¹⁰ further investigation is required to determine how to maximize improvements to health and social outcomes in today's society. A pilot project is currently ongoing in Ontario,¹¹ but additional pilot projects representative of diverse Canadian populations are needed in order to inform future implementation. It is recommended that the Task Force organize pilots to study the impact of the GAI on work effort, health outcomes, family structure, educational enrolment, and other social outcomes as well as examining program reach and administrative efficiencies, and contribute to decisions regarding: income thresholds, benefit claw backs, financing, inter-face with provincial and territorial programs, and unintended consequences. All pilot studies should be completed over a 3-5-year span and prior to the year 2025.

Recommendation 3: Report on Implementing the Guaranteed Annual Income in Canada.

The Task Force would be responsible for producing a report describing the implementation the GAI nationally, including its design, implementation, and ongoing monitoring. The report should be based on evidence from past literature and modern pilots and include a full health impact assessment, which would examine the potential effects of the GAI on health. The report should be directed to the Parliament of Canada and completed prior to 2025.

References/more information

- 1) Citizens for Public Justice. (2017). *Poverty Trends Report 2017*. Ottawa, ON. Retrieved from <https://www.cpj.ca/sites/default/files/docs/files/PovertyTrendsReport2017.pdf>
- 2) Statistics Canada. (2017). *Children living in low-income households*. Statistics Canada Census in Brief. Catalogue no. 98-200-X2016012.
- 3) Canada Without Poverty. (2013). *The Cost of Poverty*. Retrieved March 10, 2018, from <http://www.cwp-csp.ca/poverty/the-cost-of-poverty/>
- 4) Pickett, K.E., & Wilkinson, R.G. (2015). Income inequality and health: A causal review. *Social Science & Medicine*, 128, 316-326. Retrieved from <https://doi.org/10.1016/j.socscimed.2014.12.031>
- 5) Tweddle, A., Battle, K., & Torjman, S. (2017). *Canada Social Report: Welfare in Canada, 2016*. Ottawa, ON: The Caledon Institute of Social Policy. November 2017.
- 6) Khanna, A., Frankel, S., Friendly, M., Meisner, A., Ritchie, L., Udall, S., & Guo, L. (2017). *2017 Report Card on Child and Family Poverty in Canada: A Poverty-Free Canada Requires Federal Leadership*.
- 7) Tarasuk, V., Dachner, N., & Loopstra, R. (2014). Food banks, welfare, and food insecurity in Canada. *British Food Journal*, 116(9), 1405-1417. <https://doi.org/10.1108/BFJ-02-2014-0077>
- 8) Martin, D. (2017). *Better Now: Six Big Ideas to Improve Health Care for All Canadians*. Penguin Canada.
- 9) McNeill, T. (2010). Family as a social determinant of health: implications for governments and institutions to promote the health and well-being of families. *Healthcare Quarterly*, 14(Sp), 60-67. doi:10.12927/hcq.2010.21984
- 10) Forget E. (2015, October). Reconsidering a Guaranteed Annual Income: Lessons from MINCOME. *Public Sector Digest: Economics and Finance*. www.researchgate.net/publication/282878565
- 11) Government of Ontario. (2017, April). *Ontario Basic Income Pilot, Studying the impact of a basic income*. Retrieved March 10, 2018, from https://files.ontario.ca/170508_bi_brochure_eng_pg_by_pg_proof.pdf

Disclaimer: The views expressed in this policy brief are those of the author and should not be attributed to the University of New Brunswick. Distribution of this document is not permitted without the written consent of the author.

Author Contact: rmurray@unb.ca