Implementing a Basic Income Guarantee in Canada: Prospects and Problems

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Overview and Purpose

▶ To review the case for a BIG in Canada
▶ To outline challenges in implementing it, including the need to involve both federal and provincial governments
▶ To propose an adequate and affordable BIG
  ▶ Implemented through the income tax system
  ▶ Drawing on Income Tax Collection Agreements experience
  ▶ Financed mainly from income-tested transfers OAS/GIS, SA, RTCs, NRTCs
▶ To illustrate the BIG proposal using simulations based on Statistics Canada’s SPSD/M database
Long History of Advocates

- Thomas More *Utopia* 1516
- Antoine Caritat, Marquis de Condorcet 1794
- Thomas Paine *Agrarian Justice* 1797: basic endowment and basic income, financed by land tax
- John Stuart Mill *Principles of Political Economy* 1849: fairness/utilitarian argument
- Henry George 1871: basic income financed by land taxation
- Bertrand Russell 1918: a certain income, sufficient for necessaries, paid to all whether they work or not
- Major Douglas 1924 Social Credit: national dividend to address over-production and reluctance of banks to lend
- James Meade 1936 and GDH Cole 1935: social dividend from common social heritage that all citizens should share
More Recently,

- **Economists**
  - Hayek, Tinbergen, Friedman, Simon: NIT or flat tax
  - Galbraith, Tobin, Reich: progressive version of NIT
  - Atkinson, Osberg: participation income
  - Mirrlees: optimal income tax
  - Roemer: equality of opportunity
  - Fleurbaey-Maniquet: fairness

- **Entrepreneurs**: Elon Musk, Mark Zuckerberg, Eric Schmidt

- **Leading proponents**: Belgian philosopher Philippe van Parijs, UK social economist Guy Standing who founded BIEN

- **UN Universal Declaration of Human Rights 1948**

- **Recently proposed by IMF to address inequality**

- **Consistent with ESDC Poverty Reduction Strategy**
Canadian Proponents

- 1971: Special Senate Committee on Poverty (Croll Report), Castonguay-Nepveu Report, Status of Women Committee
- 1976: National Council of Welfare
- 1985: Macdonald Royal Commission, Forget Commission
- 2006: Women’s Livable Income Working Group, Standing Committee on Agriculture and Forestry
- 2008: Senate report on poverty
- Various City Councils and Mayors
- Political parties: Liberal policy resolution, Green party, Guy Caron leadership platform, Hugh Segal, Art Eggleton
- Medical & public health groups: CMA
And Detractors

- Economists: Jonathan Rhys Kesselman, Kevin Milligan, etc.
- Policy people: Armine Yalnizyan, Andrew Jackson, etc.
- Institutes
  - Caledon Institute (Ken Battle, Sherri Torjman)
  - Canadian Centre for Policy Alternatives (David MacDonald)
  - Fraser Institute (Charles Lamman, Hugh McKenzie)
- Various trade unions
Experimentation and Implementation

Various experiments and pilots
- Dauphin MB MINCOME experiment 1974–79
- Various NIT random control experiments in US
- Recent pilots in Ontario, Finland, India, Kenya, Netherlands
- Proposed pilot for Oakland and Stockton CA
- Referendum on UBI in Switzerland 2016

Some partial applications
- Alaska Permanent Fund Dividend & Iran Basic Income (oil)
- UK Child Trust Fund 2005–11
- Alberta Social Credit 1933 and Prosperity Bonus 2005
- Brazil Bolsa Familia
- Greek Social Security Income
Arguments for a Basic Income Guarantee I

Context

- Growing inequality and failure of redistribution policies
- Dramatic fall in real welfare incomes since early 1990s
- Increase in earnings volatility, precariousness of employment
- Self-reinforcing nature of poverty, including across generations

Element of Redistribution Policy

- Ability to pay and equal sacrifice
- Utilitarianism
- Equality of opportunity
- Entitlement to common social dividend: value of institutions, accumulated knowledge, natural resources
Arguments for a Basic Income Guarantee II

Other Benefits

- Social investment: effect on nutrition, health, education outcomes, crime
- Facilitation of entrepreneurship
- Improved well-being, life chances, independence, ability to participate, opportunity for one’s children
- Elimination of stigmatization and improved social norms
- Social insurance against precarious employment, temporary jobs, trade and technology shocks (with EI)
Arguments Against Basic Income

- Work effort and participation in labor force
  $\implies$ But, assumes elastic labor demand

- Should those who choose leisure be given money by the state?
  $\implies$ Alternative is participation basic income
  $\implies$ Could integrate WITB/CWB into BIG

- Affordability: BIG based on poverty rate is costly

- Political feasibility: cost borne by middle income earners

- Inferior to piecemeal approaches to poverty reduction?

- May detract from employment policies, and public services
What is a Basic Income Guarantee? Two Equivalent Views

1. Universal Basic Income (UBI)
   - Common payment $B$ to all regardless of circumstance
   - $B$ paid upfront, $Y$ taxed at fixed rate $t$: Figure 1
   - Budget constraint solid line: $C = (1 - t)Y + B$
   - Net receipt from government $B - tY \geq 0$

2. Income-Tested Basic Income (ITBI)
   - Individual receives $B$ net of taxback rate: $B - tY$
   - Phased out at $Y = B/t$
   - Above phase-out, income taxed at rate $t$
   - Net amount received = $Y - tY + B$, same as under UBI

Difference between UBI and ITBI is timing
Figure 1. Negative Income Tax
ITBI: Extensions

1. Higher taxback increases $B$, reduces cost to higher incomes:
   $\implies$ Dashed line in Figure 1

2. More progressivity via more tax brackets:
   $\implies$ Solid line of Figure 2

3. Participation incentive at bottom (reduced METR):
   $\implies$ Dashed line of Figure 2: WITB/CWB

4. ITBI separate from income tax:
   $\implies$ Figure 3: $N = NRTC, R = RTC$
   $\implies$ If $R = B$, same outcome as in Figure 2

Canadian discussion focuses on ITBI
Figure 2. Progressive Income Tax
Figure 3. Progressive Income Tax with NRTC and RTC
The Status Quo

Federal/Provincial Shared Responsibility for Redistribution

- Fed govt deals with elderly (OAS/GIS), children (CCB)
- Provinces deal with long-term unemployed, disabled (SA)
- Fed govt finances transfers delivered by First Nations
- Both levels use income tax

Two Design Issues

1. Which programs would BIG replace?

2. Incremental reform versus move to full BIG: transition
Relevant Features of Canadian Tax-Transfer System I

Three main types of transfers

1. Transfers integral to income tax system:
   ⇒ RTCs (CCB, GST/HST, CWB)
   ⇒ NRTCs, 2/3 of which is Basic Personal Amount
   ⇒ Federal with provincial supplements

2. Stand-alone transfer administered via income tax system:
   ⇒ OAS/GIS plus provincial supplements

3. Transfers independent of income tax: SA
   ⇒ < poverty levels, onerous criteria, high taxback rates
   ⇒ NL: ≈$11,400 with 70% taxback (MBM: $19,531)
   ⇒ ON: ≈$9,200 with 50% taxback (MBM: $20,700)
   Higher for disabled
Relevant Features of Canadian Tax-Transfer System II

- OAS/GIS and CCB provide adequate BIG for seniors and children, but with low taxback rates

- Working and non-working non-seniors lack effective BIG
  \( \Rightarrow \) SA for non-working adults varies across provinces

- Basic Personal Amount worth $2,400 in NL, $2,300 in ON
  \( \Rightarrow \) If refundable and income-tested, would be modest UBI

- Federal government partially funds SA via CST

- Key institution is Canada Revenue Agency (CRA)
  \( \Rightarrow \) Administers federal & provincial tax-transfer programs
  \( \Rightarrow \) Tax Collection Agreements: common base, different rates
The Need for Federal-Provincial Collaboration

- Constitution doesn’t assign responsibility for redistribution. Both levels redistribute to different groups.

- Federal and provincial governments use income taxes in highly harmonized way: common base, NRTCs, RTCs.

- BIG is most effectively delivered via income tax system.

- Much financing of a BIG will come from funds that are already disbursed through the tax system, such as NRTCs and RTCs.

- Two further arguments for provincial participation in BIG:
  - BIG will replace provincial welfare and disability transfers
  - Provinces have different needs and preferences.
The Ideal: A Federal-Provincial Basic Income Guarantee

Substitute BIG for existing income-tested transfers
  > Equivalent to revenue-neutral reform of income tax

BIG analogous to existing RTCs suitably enriched

Harmonized federal and provincial components
  > Draws on tax harmonization experience
  > Federal government enacts federal BIG
  > Each province decides whether to join
  > Joining provinces choose own minimum guarantees and abide by federal taxback rate

Begin with benchmark case of uniform national BIG
Then, outline federal-provincial collaboration
Benchmark: A National Basic Income Guarantee
Two Main Elements

1. Guarantee level
   - Available uniformly to all adults (children get CCB)
   - Comparable to Statistics Canada MBM (preferred by ESDC)
   - Adjusted for number of adults in family
     Level for family of $n$ is $\sqrt{n} \cdot B$, divided equally

2. Taxback (benefit reduction) rate of 30%
   - So METR for BIG recipients is $\approx 50\%$, incl. income tax
   - Applies to equal share of pooled family net income
     Enhances fairness while keeping effective taxback at 30%

BIG applied on top of income tax system

Administered by CRA
Financing a Basic Income Guarantee

BIG would replace existing transfer programs

- RTCs, most NRTCs, SA (incl. disability)
- OAS/GIS also replaced, though controversial since generous
- Social insurance (EI, CPP/QPP), other social programs kept
- Parameters of program chosen so roughly self-financing (assuming no behavioral responses)

Partial step toward BIG

- Convert Basic Personal Amount into a progressive income-based credit and make it refundable
Federal-Provincial Collaboration

Two-Stage Process

1. Federal government implements a Federal BIG

2. Provinces decide whether to implement Provincial BIGs
Stage 1: A Federal Basic Income Guarantee

- Financed by eliminating federal RTCs, NRTCs, OAS/GIS
- Guarantee level based on national average MBM of $18,771 for single adult
- Federal BIG is $13,672, where 0.728 is federal share of sum of federal and provincial transfers saved
- Adjusted for family size using square-root scale
- Federal BIG goes to non-senior adults not on provincial SA
- Senior adults receive National BIG since OAS/GIS eliminated
- Adults on SA receive Federal BIG less average provincial SA
Stage 1: A Federal Basic Income Guarantee, cont’d

- BIG taxback rate = 30% of each adult’s share of pooled family net income

- Federal NRTCs eliminated so federal income tax paid on first dollar at 15% \( \Rightarrow \) METR \( \approx 45\% \)

- Provincial taxes only kick in when NRTCs exhausted
  (5.05% in ON, 8.2% in NL)

- Federal BIG is roughly self-financing

- CST remains in place unless province reduces its SA rates

- CRA administers Federal BIG
Stage 2: Provincial Participation

- Each province decides if and when to join
- Joining provinces agree to
  - Eliminate own NRTCs, RTCs and SA
  - Common 30% taxback rate on Fed + Prov BIG
  - CRA administration
- Uniform self-financing Provincial BIG would be $5,099
  - Provinces could deviate at own costs
  - Those with higher SA rates could afford higher BIG
- Federal and Provincial BIGs apply to all adults
- \[ \text{METR} = \text{BIG taxback} + \text{federal tax} + \text{provincial tax} \]
  - \( \Rightarrow \) NL: 30% + 15% + 8.2% = 53.2%
  - \( \Rightarrow \) ON: 30% + 15% + 5.05% = 50.5%
Other Design Issues

Harmonize other RTCs with BIG to avoid stacking of METRs
⇒ CCB

Adjust tax brackets to coincide with BIG phaseout levels
(to avoid high METRs)

Possibility of variable taxback rate
⇒ e.g., to encourage labor market participation
⇒ Enhanced CWB

Need to adjust CST for participating provinces since SA abolished
Illustrative Calculation of Uniform National BIG

- Use Statistics Canada’s SPSD/M version 26.0 with 2018 data
- Simulate National BIG of \( \sqrt{n} \cdot \$18,771 \) for an \( n \)-adult family with taxback rate of 30% based on split family income
- Eliminate GST/HST, WITB, OAS/GIS, SA, most NRTCs
- Total BIG cost is $172.33 billion; value of transfers eliminated is $164.14 billion, so deficit is $8.19 billion (about 0.048%)
- Report effect of BIG proposal on family disposable income by deciles of family income
  - For all of Canada, ON and NL
  - For all adults, those < 65, and those \( \geq 65 \)
Canada-Wide Effects of a National BIG: Table 1

Full Sample

- Disposable incomes increase for bottom five deciles
- Gains decrease with family income
- Losses in top five deciles less progressive
- Average gain of 1.29% reflects finance shortfall

Seniors vs Non-seniors

- Higher gains/lower losses for non-seniors
- For seniors, all but bottom decile lose, losses high
- Raises concern for political feasibility
- Could retain OAS/GIS, but increases net cost of BIG and leads to inequity vis-à-vis non-seniors
Table: 1. Effect of BIG for All Canadian Households

<table>
<thead>
<tr>
<th>Decile</th>
<th>All Adults ($)</th>
<th>All Adults (%)</th>
<th>Adults &lt;65 ($)</th>
<th>Adults &lt;65 (%)</th>
<th>Adults 65+ ($)</th>
<th>Adults 65+ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$12,301</td>
<td>130.90%</td>
<td>$12,946</td>
<td>148.68%</td>
<td>$2,259</td>
<td>12.42%</td>
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<tr>
<td>2</td>
<td>$9,266</td>
<td>63.26%</td>
<td>$12,659</td>
<td>105.07%</td>
<td>-$1,431</td>
<td>-6.54%</td>
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<tr>
<td>3</td>
<td>$6,343</td>
<td>28.86%</td>
<td>$9,947</td>
<td>48.67%</td>
<td>-$551</td>
<td>-2.29%</td>
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<tr>
<td>4</td>
<td>$4,529</td>
<td>15.28%</td>
<td>$7,332</td>
<td>25.73%</td>
<td>-$1,155</td>
<td>-3.80%</td>
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<tr>
<td>5</td>
<td>$2,068</td>
<td>5.50%</td>
<td>$4,485</td>
<td>12.52%</td>
<td>-$3,425</td>
<td>-8.98%</td>
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<tr>
<td>6</td>
<td>-$605</td>
<td>-1.28%</td>
<td>$1,622</td>
<td>3.58%</td>
<td>-$6,394</td>
<td>-14.02%</td>
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<tr>
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<td>-$4,022</td>
<td>-6.76%</td>
<td>-$1,548</td>
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<td>-18.23%</td>
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<td>-7.46%</td>
<td>-$6,012</td>
<td>-6.24%</td>
<td>-$13,018</td>
<td>-14.91%</td>
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<tr>
<td>10</td>
<td>-$7,126</td>
<td>-3.76%</td>
<td>-$6,254</td>
<td>-3.56%</td>
<td>-$9,885</td>
<td>-4.80%</td>
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<tr>
<td>Avg</td>
<td>$758</td>
<td>1.29%</td>
<td>$2,640</td>
<td>4.51%</td>
<td>-$5,362</td>
<td>-10.21%</td>
</tr>
</tbody>
</table>

Source: Statistics Canada SPSD/M Version 26.0
Effects on ON and NL: Tables 2 and 3

- Average change in disposable income higher in ON that All Canada, and lower in NL

- NL loses on average, while ON and All Canada gains

- All categories of seniors lose in NL
  Higher proportion eligible for OAS/GIS

- Non-seniors gain less in NL
  Higher SA rates in NL
  NL non-seniors would gain more if higher provincial BIG offered

- Most categories do better in ON than All Canada
Table: 2. Effect of BIG for Ontario Households

<table>
<thead>
<tr>
<th>Decile</th>
<th>All Adults ($)</th>
<th>(%)</th>
<th>Adults &lt;65 ($)</th>
<th>(%)</th>
<th>Adults 65+ ($)</th>
<th>(%)</th>
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<tbody>
<tr>
<td>1</td>
<td>$12,088</td>
<td>126.63%</td>
<td>$12,541</td>
<td>138.50%</td>
<td>$4,224</td>
<td>25.84%</td>
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<td>2</td>
<td>$10,736</td>
<td>78.93%</td>
<td>$13,395</td>
<td>120.23%</td>
<td>-$1,041</td>
<td>-4.59%</td>
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<td>3</td>
<td>$7,393</td>
<td>35.18%</td>
<td>$10,533</td>
<td>54.73%</td>
<td>-$210</td>
<td>-0.86%</td>
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<tr>
<td>4</td>
<td>$5,911</td>
<td>20.46%</td>
<td>$8,481</td>
<td>30.57%</td>
<td>-$44</td>
<td>-0.15%</td>
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<tr>
<td>5</td>
<td>$2,858</td>
<td>7.70%</td>
<td>$5,592</td>
<td>15.69%</td>
<td>-$2,578</td>
<td>-6.77%</td>
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<tr>
<td>6</td>
<td>$217</td>
<td>0.46%</td>
<td>$2,355</td>
<td>5.34%</td>
<td>-$5,373</td>
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<td>-$3,328</td>
<td>-5.60%</td>
<td>-$848</td>
<td>-1.50%</td>
<td>-$9,413</td>
<td>-16.43%</td>
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<td>-$6,199</td>
<td>-8.09%</td>
<td>-$4,137</td>
<td>-5.60%</td>
<td>-$11,331</td>
<td>-16.04%</td>
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<td>9</td>
<td>-$6,623</td>
<td>-6.45%</td>
<td>-$5,119</td>
<td>-5.11%</td>
<td>-$12,363</td>
<td>-13.95%</td>
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<td>10</td>
<td>-$6,485</td>
<td>-3.30%</td>
<td>-$5,518</td>
<td>-3.02%</td>
<td>-$9,773</td>
<td>-4.54%</td>
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<tr>
<td>Avg</td>
<td>$1,655</td>
<td>2.79%</td>
<td>$3,609</td>
<td>6.24%</td>
<td>-$4,945</td>
<td>-8.81%</td>
</tr>
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</table>

Source: Statistics Canada SPSD/M Version 26.0
### Changes in Family Disposable Income

<table>
<thead>
<tr>
<th>Decile</th>
<th>All Adults $($)$</th>
<th>All Adults (%)</th>
<th>Adults $&lt;65$ $($)$</th>
<th>Adults $&lt;65$ (%)</th>
<th>Adults $\geq 65$ $($)$</th>
<th>Adults $\geq 65$ (%)</th>
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<td>1</td>
<td>$8,446$</td>
<td>59.87%</td>
<td>$9,770$</td>
<td>75.33%</td>
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<td>-12.61%</td>
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<td>2</td>
<td>$4,649$</td>
<td>25.61%</td>
<td>$12,215$</td>
<td>87.24%</td>
<td>-$2,533</td>
<td>-11.81%</td>
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<td>3</td>
<td>$2,944$</td>
<td>11.57%</td>
<td>$9,063$</td>
<td>41.24%</td>
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<td>-9.48%</td>
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<td>$2,741$</td>
<td>8.32%</td>
<td>$6,152$</td>
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<td>5</td>
<td>$247$</td>
<td>0.61%</td>
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<td>-$7,661$</td>
<td>-9.13%</td>
<td>-$5,353$</td>
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<td>-$14,578</td>
<td>-20.02%</td>
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<td>-$6,980$</td>
<td>-6.55%</td>
<td>-$5,631$</td>
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<tr>
<td>Avg</td>
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<td>-1.68%</td>
<td>$1,004$</td>
<td>1.55%</td>
<td>-$6,183</td>
<td>-13.58%</td>
</tr>
</tbody>
</table>

Source: Statistics Canada SPSD/M Version 26.0
Other Considerations

- Design issues
  - Variable BIG and taxback structure
  - Treatment of seniors
  - Inclusion of First Nation residents
- Labor supply responses
  - METR and intensive margin
  - Participation rates
  - Social norms
  - Inadequacy of labor demand
- Eligibility for social and employment services
- Responsiveness to income changes in income; relation to EI
- Political feasibility
- Financing options: tax expenditures, tax rates, new taxes
A Provincial BIG?

Formidable Obstacles

- Self-financing version would be small
- Substantial new revenues required to have BIG close to MBM
- Delivery through income tax system not feasible with existing income TCAs
- Delivery outside the income tax system administratively complex
- Fiscal competition would be a challenge unless several provinces cooperated

No analogue to provincial innovation in Medicare