

Attachment 3: Basic Income: Key Issues and Considerations

What is Basic Income?

At its simplest, basic income seeks to ensure that all members of society have an income sufficient to meet their basic needs and to live with dignity, regardless of their work status.¹ To achieve this, government transfers regular payments to individuals or households irrespective of personal circumstances or need and subject to no or very few conditions of eligibility.² This kind of model is how basic income is most commonly understood. It is seen as a straightforward way of replacing a wide array of existing programs which are complex, expensive or punitive and giving people more control so that they can better meet their needs.

This simplicity is, however, somewhat deceptive. In practice, as is suggested by the variety of other names it goes by -- Basic Income Guarantee, Guaranteed Income, Guaranteed Annual Income, Universal Basic Income, Negative Income Tax and Citizen's Income -- there are many different versions of basic income. While these different names can represent different visions, with different goals and models, they can also be used somewhat interchangeably. Basic income can serve very different goals depending on how it is structured, and the idea therefore receives support from across the political spectrum. Versions differ according to the amounts involved, the source of funding, the nature and size of the reductions in other transfers, and along many other dimensions. The specific purpose and design details of any basic income are therefore critically important.

What is the Purpose of Basic Income?

It is not surprising given the wide number of models -- and support from both sides of the political spectrum -- that proponents of basic income see many and varied purposes. These include:

- *Reduce poverty and establish greater income security:* Providing people with regular payments that meet their needs will help lift them out of poverty and build financial security. However, the amount required to lift people out of poverty will differ significantly between the 'working poor' and those on social assistance who live in deep poverty.³
- *Streamline and simplify bureaucracy:* Existing income support programs, especially social assistance, are complex, rule-bound and often counterproductive, and can make it harder for many people to move out of

¹ <http://www.opha.on.ca/getmedia/898edb4a-a5e2-406c-9add-8ad4b1f1c75f/alPHa-OPHA-HEWG-Basic-Income-Backgrounder-Final-April-2016-Updated.pdf.aspx?ext=.pdf>

² https://www.policyalternatives.ca/sites/default/files/uploads/publications/reports/docs/CCPA_Guaranteed_Income_Nov_2009.pdf

³ https://medium.com/@maytree_canada/policy-brief-would-a-universal-basic-income-reduce-poverty-cd85fd64dbac#.c6642x4tb

poverty. A simplified basic income makes benefits easier to administer and reduces stigma encouraging more positive relationships.

- *Reduce government spending and size of government:* Given the large costs associated with administering social programs, any restructuring as a result of basic income could lead to the removal of inefficient programs and more effective spending on public services. It could also reduce spending in other areas, such as health care, given the strong connections between poverty and poor health.
- *Support People in a Changing Labour Market:* Finally, given the emergence of a more polarised labour market, the rise of precarious employment and accelerating automation, for some basic income provides an opportunity to better support people and maintain connections to a rapidly changing labour market.

Among those who oppose basic income, the following concerns are typically raised:

- *Work disincentive effect:* Receipt of a generous and unconditional benefit may mean some individuals will opt out of participation in the paid labour market.
- *Reciprocity:* An unconditional benefit provides significant public resources to individuals with no expectation of a contribution in return. However, others argue that existing social programs disincentivize workers because individuals lose benefits when they earn higher incomes and that, ultimately, as participating in the labour force is rewarding, a basic income will foster rather than undermine the work ethic.
- *Cost:* Ultimately, to have any meaningful impact, basic income may be considered too expensive to be politically acceptable or possible. Some calculations, for example, suggest that in Ontario the cost of a basic income would be approximately \$30 billion and that this would be in addition to the \$160 billion already being spent on welfare and social services.⁴

The pilots that have been conducted provide some limited evidence about what does happen under certain basic income programs. For example, research suggests that experiments in the US did not create work disincentives, or at least that there were very small. Similarly, there was some dropout from the workforce in Dauphin, Manitoba when the "mincome" experiment was running, but it consisted largely of younger people looking to further their education, or parents choosing to spend time with young children.

How is Basic Income Implemented?

Typically, although there are a variety of different approaches to implementing a basic income, discussions focus on the following:

- A Universal Demogrant provides every adult with a regular - typically monthly – tax-free payment from government, regardless of their income or circumstances. All other income is taxable. As a result, individuals who earn larger incomes ultimately pay back the benefit through government taxes. The Universal Demogrant can be

⁴ <http://metcalffoundation.com/stories/publications/a-basic-income-for-canadians/>

administered simply, and is less stigmatizing than other models. The Old Age Security (OAS) program and Universal Child Care Benefit are two Canadian examples of this approach.

- A Negative Income Tax relies on the tax system as the vehicle for administering basic income. It works like a refundable tax credit, such as the GST/HST credit, to provide a cash benefit to individuals or families with no or low income. Payment is reduced by a “tax back” rate for every dollar of additional income received. Once the recipient reaches a certain level of income, the benefit reduces to zero. Generally, this model generates less upfront budgetary pressures because many people receive no payment and others less than the full credit. Depending on design, the benefit unit might be the individual or the family and the credit might or might not be taxed.

Each model has its strengths. For example, one benefit of the negative income tax approach is that it incentivizes people to work even as additional income is earned since the benefit is not eliminated entirely as additional income is received. The demogrant model, meanwhile, is viewed as less stigmatizing - as everyone receives the benefit through a direct payment. A demogrant also advances money to those who need it in the present moment, while a negative income tax (unless structured to allow advance application) makes the recipients wait for payment contingent upon the “income test” represented by a tax filing. The negative income tax is therefore less responsive to fluctuations in circumstances and income that many people living in poverty face.

Ultimately, regardless of the particular model, the detailed design will determine not only who is eligible, but also how effective it is in addressing poverty and supporting work. For example, although basic income is typically only conditional to the extent it is targeted upon on low income earners, because of concerns about reduced work ethic, some approaches set participation requirements, such as volunteering, or demonstrating that they are looking for work. In addition, higher or lower benefit levels will determine the actual impact on poverty, as will the way that the income is treated by the tax system.

Why is it Popular Now?

As noted earlier, basic income is currently being considered or implemented in a number of jurisdictions. In Finland, for example, the government is paying 2000 unemployed people approximately \$780 a month in an attempt to cut poverty, reduce bureaucracy and boost employment. The basic income experiment seeks to overcome the uncertainty and financial disincentives that people face as they move from unemployment to employment and lose benefits. Meanwhile, in the Netherlands, Utrecht plans to provide 250 unemployed people with approximately \$1500 a month for two years. They will be divided into different groups and will receive different benefits and services to see which are most effective. Finally, in California, meanwhile, Y Combinator, a start-up incubator, is launching a pilot project in which 100 families will receive unconditional grants between \$1-2000 to see what changes happen in their

lives with the fear of poverty removed. The goal is to develop a 5 year study involving thousands of people across the US to receive a regular payment with no conditions. These different initiatives, in places with very different social programs, highlight a number of common factors that are driving the current popularity of basic income, including:

- *Entrenched Poverty and Inequality*: Many cities and nations are confronting persistent levels of poverty and growing levels of economic inequality, as a result of changes to labour markets, tax policies and income support programs, among other things. Various studies highlight the strong relationship that exists between greater poverty and income inequality and reduced economic performance, lower economic mobility and a myriad of social issues including poor physical health, mental illness, educational performance and social mobility.
- *Ineffective Social Policy Architecture*: Existing social programs were designed for very different society's and labour markets and are no longer able either to lift people out of poverty or stop them falling into poverty. Most notably, welfare payments no longer come close to moving people, especially singles, out of poverty. Programs are much complex and difficult to access and navigate and the so-called "welfare wall" disincentivizes individuals from earning higher incomes.
- *Rapidly Changing Labour Markets*: Twenty-first century labour markets are very different from the norm just two decades ago. There is increased polarization, with higher-skilled and well-paying knowledge jobs alongside less skilled and lower paid jobs, and an erosion of mid-level jobs. More jobs are also part-time and precarious with the decline of full-time, permanent jobs, and the increase in lower paid, contract-based jobs. These trends are expected to accelerate in the years ahead as a result of disruptive forces and technologies, with the automation of a wide range of routine jobs. More people will transition from working a single steady job to managing multiple income streams from gig-based work and while some will access new opportunities afforded by entrepreneurship and self-employment, others will face new vulnerabilities such as lack of benefits and income stability.