

The Guaranteed Annual Income: Desirable in Principle, Difficult in Practice

The Guaranteed Annual Income (GAI) has been touted as an antidote to poverty and inequality. Initiated in the mid-fifties as the negative income tax proposed by Milton Friedman and subject to major experimental studies in the sixties and seventies, why does this idea periodically rise, only to fade from public discussion?

It is useful to know that two variants exist for a GAI. First, there is an annual grant received by all under the philosophy such a payments are rights of citizenship. Those with incomes higher than the basic guarantee level would simply have that extra income taxed back. Those with even higher incomes would simply not bother to receive the money. The second approach is the negative income tax that offers a rebate to those Canadians whose incomes fall below a threshold.

The key question is what happens to people's work ethic when they receive the GAI. Our North American "social contract" rests on the expectation that citizens have the ability and willingness to obtain and retain secure employment. We expect that the large majority of citizens are able and willing to work. The safety net, funded by taxes from this majority helps the minority, whose misfortune limits their capacity or ability to work for pay.

A core objective of the major GAI experiments such as the Manitoba Basic Annual Income Experiment (Mincome) was to measure how many people receiving this support would cut back or stop working completely. As it turned out, relatively few did. The income guarantee was too low to cover everything a family needs to participate in society. Current proposals for the GAI would cover necessities, but none are generous enough to include soccer uniforms for kids or much eating out.

Single female headed households did slow down or even stopped working, choosing to parent as opposed to working in low wage employment. This echoes recent work on the National Child Benefit, which showed that even for households with two incomes, some parents receiving this monthly payment elected to reduce hours they worked. This work reduction blunted the impact of the child benefit on the incidence of poverty, but many argue that children benefited from the extra parental attention.

The problem with the research from the experimental studies is that we simply have no idea of how people will behave in the longer term. We expect that most single parents will return to work once their children are in school. However, the persistence of long-term social assistance recipients, trapped in poverty by low education and other barriers to work, suggests that guaranteed annual income may also create pools of people unable rise above the minimal income levels offered by the program.

Mincome ran for three years and so offers little insight on long-term effects. Even the most ambitious income maintenance experiments in the United States were intended to run for 20 years, but were terminated after 8 years. The costs of these experiments were breathtaking. Mincome's cost, originally budgeted for \$17 million soared to over \$23 million. These are 1979 dollars; Mincome today would cost well over \$100 million and at the time involved at most 4000 families. Most of the expenses were not research related. Since the experiments replicated reality, the bulk of the money flowed to participants in the form of regular guaranteed income payments. The financial tab for a GAI is formidable, and a reason why proposals for its implementation stall.

Recently inequality has worsened and poverty persists in Canada, but it not for want of creating a myriad of programming to address these issues. These include diverse initiatives such as social assistance, rent geared to income for housing, the GST rebate, seniors' movie tickets and the child tax credit. Proposals to increase the minimum wage and adjustments to utility rates that reflect ability to pay are some of the recent proposals to address poverty.

Proponents of the GAI argue that we can pay for this policy by eliminating other social programs. Milton Friedman's motivation for the negative income tax was less over concern for the plight of the poor, than that fact that this program could reduce the scope of government. It also requires individuals and families to manage their own welfare, rather than relying on public programs, another central idea in conservative philosophy.

Is it realistic to think that we can eliminate the many diverse and far ranging initiatives that address poverty?

Attached to the social safety net are thousands, indeed hundreds of thousands of public sector jobs. Unions will not support massive public sector job reduction to finance the guaranteed annual income. Anti-poverty advocates worry that families will be unprepared to manage their affairs and budget within the confines of the low guaranteed annual income. This paternalism is common to social programming. For many years, only mothers could receive child benefits from the state, for fear that men would go to the bar and drink their children's welfare. It will be hard to reduce this multi-layered social support system, which delivers goods and services, and not cash. Staff in each threatened program will offer compelling reasons for maintaining the status quo.

As existing social programs prove to be resilient and impervious to elimination, it may be tempting simply to add the GAI on top of the existing social safety net. Such increased spending requires either the displacement of existing priorities such as infrastructure renewal and/ or tax increases. The former will compromise long-term growth. The latter will face opposition, not so much from the very rich, but from middle-income families, with both adults racing to get kids in daycare or school, working all day, racing back to daycare/school and then racing to soccer, basketball, dance etc. They will look over the fence at another family receiving the safety net programs *and* the GAI and wonder. All the income maintenance experiments assumed that the GAI replaced all income support; none tested a GAI on top of the existing social safety net. Since the GAI is open to all, we simply have no idea how households will react in terms of work effort, especially those working and receiving an income just above the GAI payment.

The GAI has enormous face validity and appeal. Some even argue that since it will support greater income equality, such a program could have broader impacts such as increased environmental sustainability. That is unlikely. The GAI is just a mechanism to transfer resources from higher to lower income households. Fiscal realities and the many interest groups keen to maintain the current order impede the implementation of such a policy on a large scale. As with most simple solutions, irksome details bedevil implementation. Our best bet to address poverty and inequality in Canada probably remains to accept and improve the many imperfections of the current patchwork of income support policies.