

# Basic Annual Income: Prospects and Problems

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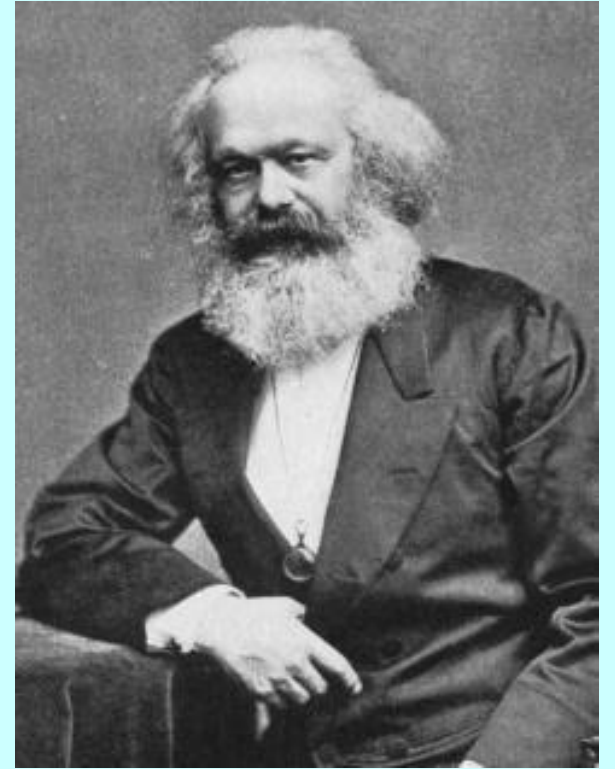
University of Manitoba

Presentation to Len Remis Lunch  
Shaarey Zedek Synagogue  
July 28, 2016

# Background

## **Primitive communism/Christian/Jewish ethics**

- *"from each according to his ability, to each according to his needs" (Louis Blanc 1851)*
- *after the productive forces have also increased with the all-around development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be crossed in its entirety and society inscribe on its banners: From each according to his ability, to each according to his needs. (Karl Marx)*
- *Many kibbutzim practiced a form of communism*
- *Tikkun Olam.*



Basic annual income  
= universal income  
= negative income tax  
= guaranteed annual income

# Reasons why the left supports a basic income

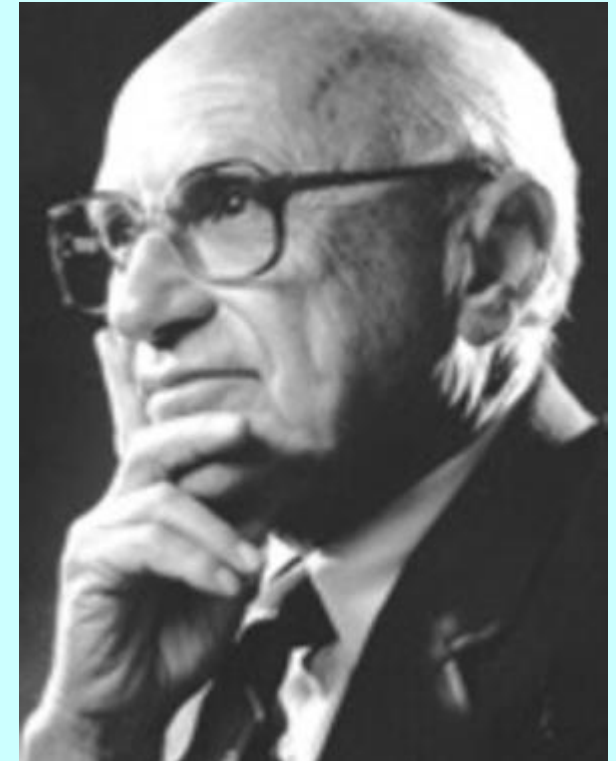
- Human dignity
- Benefits for children and other dependents
- Poverty and poor health increase the costs to society in the short and long-term
- Eliminates the stigma associated with social assistance

# The free market view

**Milton Friedman** proposed a minimum income using a **negative income tax**.

Here is how it works:

- Everyone (regardless of age) receives \$6,000 annually.
- A family of four would receive \$24,000.
- If that family earned \$12,000 in market wages, that was taxed at 33%, then the total income for the household would be \$32,000.



# Reasons why the “right” supports a basic income

- Reduce bureaucracy and cost of government
- Free markets work best if everyone has some purchasing power
- End the welfare trap
- Promote non-paid work (volunteering)
- Promotes social justice

**Welfare trap** is common to social welfare programs that reduce benefits dollar-for-dollar as the recipient earns market income

# Manitoba's experience with the negative income tax.

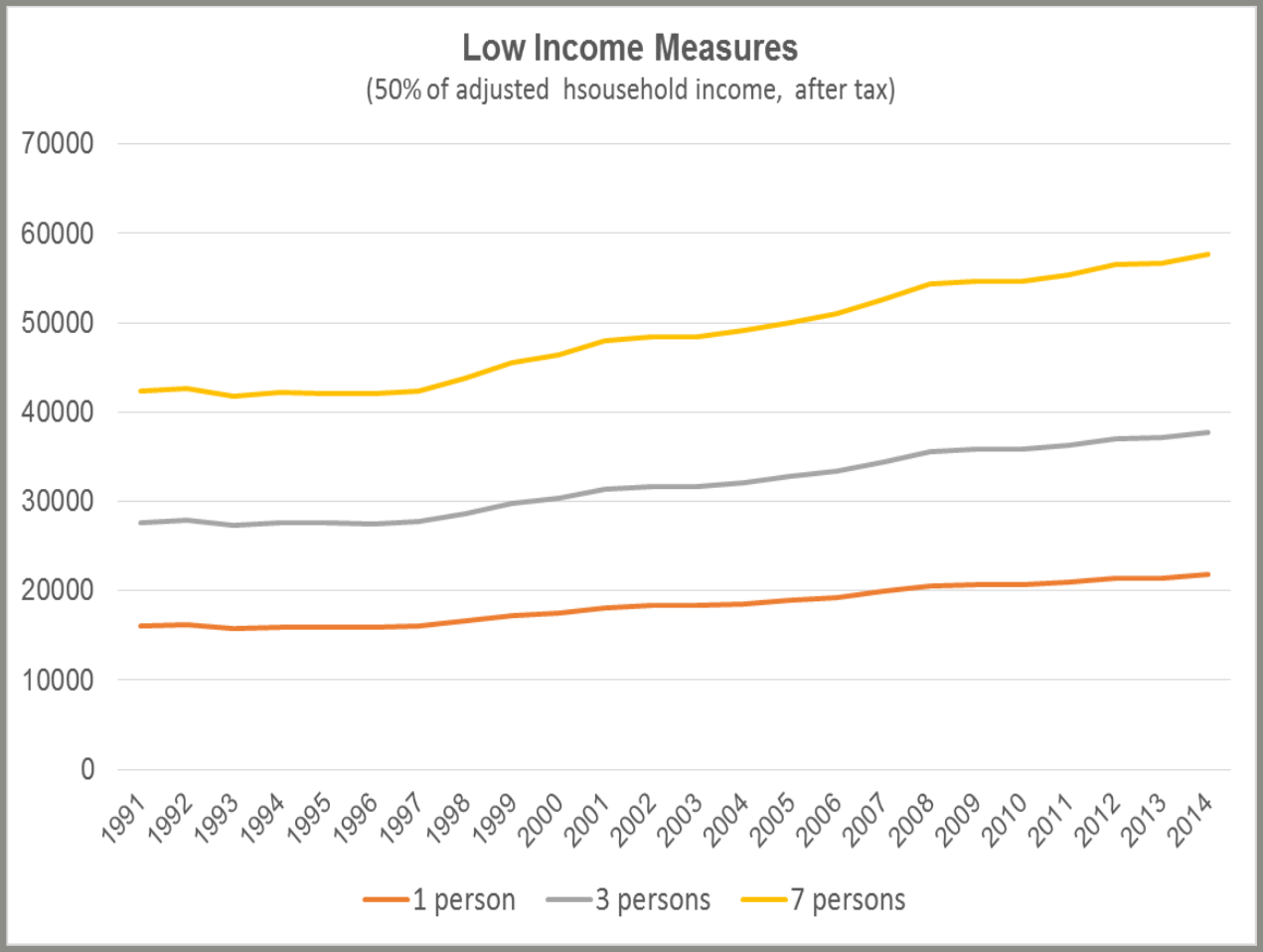
- **Mincome** was an experimental Canadian guaranteed annual income (GAI) project conducted in Manitoba, between 1974 and 1979.
- Funded jointly by the Manitoba provincial government and the Canadian federal government
- It was a genuine experiment – some randomly selected recipients were placed in the control group (received no payments but completed questionnaires, while others received various levels of income (and also completed questionnaires))
- The purpose of this experiment was to assess whether a program of this nature would cause disincentives to work for the recipients, the nature of that disincentive, and the administrative issues facing a GAI.
- Research has established that those receiving Mincome only reduced their work effort slightly. (women with young children and a second income earner)
- Some have argued that Mincome contributed to better health outcomes, but this is debatable.

# What does an ideal basic income look like?

- Enables individuals to have both
  - *(1) autonomous income to meet their needs; and*
  - *(2) access to public services that benefit all of us;*
- Replaces income provided through social assistance systems and other supports such as GST rebate;
- May not replace other income support such as Employment Insurance, old age security and public pension
- Is inflation adjusted and declines as other income increases
- Can be adjusted to meet specific needs (lone parenthood) ,
- Makes no one worse off by the transition from the existing system.
- Does not negate the need for labour adjustment programs or education
- Does not eliminate the income tax system



# Reality Check – Poverty and Basic Income



In 2014 a single person would be judged as “poor” if their income were below \$21,773

- Using the Low Income Measure, a basic income of \$10,000 per person, would fall far short of addressing poverty.
- Such a measure would require an expenditure of 36m x \$10,000 or \$360,000,000,000!
- Canada’s GDP is \$1,663,000,000,000

# Key issues for a basic income

- How will people change their work behaviours in the long-term?
- What programs do we cut to finance the basic income – minimum wage? social assistance? subsidized housing? Low cost education? ....
- Will the basic income “cure” poverty” Will it “cure” inequality?
- Is basic income associated with better health outcomes and if so can we finance part of the program through lower health costs?
- How can we finance a meaningful basic income?

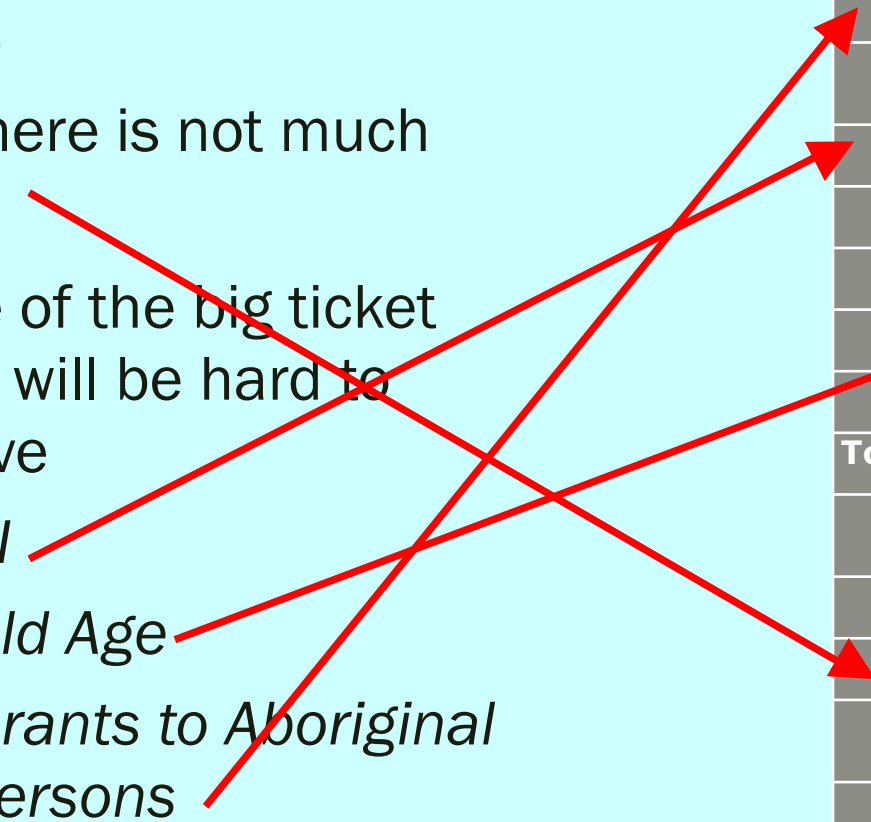
# Work behaviour and basic incomes

- None of the “experiments” can offer credible on work behaviour
- What information that does exist, shows those who wish to/need to parent and who have other income sources in the household will reduce their work
- All participants “knew” the experiment was temporary and **we just do not know how people would behave in the long-term.**

# What program to cut to pay for the basic income?

- Social assistance is usually the first program to cut
- But there is not much there
- Some of the big ticket items will be hard to remove
  - *EI*
  - *Old Age*
  - *Grants to Aboriginal persons*

Government transfer payments to persons, provincial economic accounts, annual (dollars x 1,000,000)(3)		
	2009	Percent
<b>Total government transfer payments to persons</b>	\$176,630	100
<b>Total federal</b>	\$88,051	49.9%
Family and youth allowances	\$211	0.1%
Child tax benefit or credit	\$9,716	5.5%
Universal child care benefit	\$2,590	1.5%
Pensions, World Wars I and II	\$1,686	1.0%
War veterans' allowances	\$639	0.4%
Grants to aboriginal persons and organizations	\$6,532	3.7%
Goods and Services Tax credit	\$3,942	2.2%
Employment insurance benefits	\$18,755	10.6%
Old age security payments	\$34,973	19.8%
Scholarships and research grants	\$880	0.5%
Miscellaneous and other transfers	\$8,127	4.6%
<b>Total provincial</b>	\$45,030	25.5%
Social insurance benefits, workers' compensation	\$5,970	3.4%
Social insurance benefits, other	\$1,649	0.9%
Grants to benevolent associations	\$12,877	7.3%
Social assistance, income maintenance	\$8,232	4.7%
Social assistance, other	\$4,986	2.8%



# Can the Basic Income cure poverty?

- People adjust work effort create a total income that meets lifestyle needs/wants
- Parents use increased care payments, reduce paid work, and
  - *Wait for it.....*
  - *Increase their parenting time*
- The net effect is that poverty rates may not change as much as expected.
- People's economic behaviour can be initially puzzling, but usually makes sense on reflection and research.

# Can the basic annual income reduce inequality?

- Inequality and poverty are not related
- The impetus for a basic income is not that a few are filthy rich and getting richer, but ...
- that inflation adjusted incomes are stagnant and upward mobility has stalled.
- The basic income will do little to address inequality
- We can expect income adjustments for the middle income and higher professions.

# Basic income and health – what is the connection?

- The medical community has endorsed a basic income (and an increase to the minimum wage) as a way to increase health and reduce costs
- But it is not clear that an increase in min wage or basic income will reduce poverty
- The research that shows the correlation between income and health status is very tenuous (many intervening variables)
- The fact that people are healthier (i.e., place fewer demands on the health care system) may not result in lower health system costs.

**How can we finance a basic income?**

**Thank you**