CALEDON
INSTITUTE OF SOCIAL POLICY

Guaranteed Income
or Guaranteed Incomes?

by

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Poverty is a complex, deep-rooted and persistent problem that does not admit of simple explanations and solutions. Thanks to pathbreaking research at Statistics Canada over the past decade or so, we now have a much more sophisticated understanding of the forces and factors that affect poverty and inequality. But that growing body of knowledge does not necessarily make the job of policy-makers any easier. The hard truth is that tough, complicated problems like poverty and unemployment cannot be solved by simple all-in-one solutions like 'the' GAI, the Holy Grail of some social advocates.

I am not arguing that the concept of Guaranteed Income has no merit or is irrelevant. To the contrary, it already has had a significant and salutary impact on the evolution of Canada's array of income security programs. And it could play an even greater role in the reform of these programs to build a stronger social safety net. But 'the' Guaranteed Annual Income – and of course in reality there is no 'the' GAI, but rather a variety of different proposals made since the 1960s – is not by itself an adequate response to poverty.

GAI is a brilliantly simple idea, which is why it appeals to many. Too many poor people? Then provide a basic income below which no one will fall. In the words of that renowned social theorist Woody Allen, and I quote, "Money is better than poverty, if only for financial reasons."

It is helpful to distinguish between GAI as a means and an end, though I suspect its enthusiasts see it as one and the same. As a means, a GAI is touted as a simple way – much simpler than the current system – of providing an income floor for all Canadians. There are two basic types of GAI. The first approach, pioneered by the American economists George Stigler and Milton Friedman, is a negative income tax (NIT), meaning a cash payment via the income tax system to lower-income persons. The second approach, proposed by the American economist Robert Theobald, is a universal demogrant, which is a basic income paid to everyone.

But GAI can also be viewed as an end or objective, which can be achieved in different ways, including but not restricted to a basic income or negative income tax. The most common goal is an income floor, leaving aside for now the thorny problem of how to establish what that floor should be. Another is to reduce the cost, complexity and alleged work disincentives of the current hodge-podge of income programs. Another is to end poverty and reduce income inequality. These goals can lead to quite different proposals. So already, GAI is not so simple an idea as it might seem at first glance.

Canada already pursues the various goals of GAI just mentioned, though not in any coherent or comprehensive or universal manner, not using the term GAI (though the Guaranteed Income Supplement or GIS comes closest) and, of course, with decidedly mixed results. The situation varies from one program or set of programs to another. To give a recent notable example, the National Child Benefit's goals are to help prevent and reduce the depth of poverty, to promote attachment to the workforce, and to reduce overlap and duplication of programs between the federal and provincial/territorial governments. Although the NCB does not use the language of GAI, its objectives are certainly those of GAI. At the other extreme, welfare, the income support of last resort, is supposed to provide an income floor, though in reality it is no longer guaranteed to all those in need and provides a low income to those who qualify for it.

Back to GAI as a means or instrument. The negative income tax school of thought argued that the personal income tax system could be used to pay benefits to the poor, in addition to its tradition function of collecting taxes. That translates in contemporary Canadian social policy terminology to income testing through the tax system, using refundable tax credits. We at Caledon call this 'GAI technology.'

Canada has in fact made considerable use of GAI technology in the development of its income security system, originating with Monique Bégin's landmark introduction of the refundable child tax credit in 1978. Federal child benefits underwent considerable structural changes in the 1980s and 1990s, culminating in the replacement of family allowances, the refundable child tax credit and the nonrefundable child tax credit by the income-tested Child Tax Benefit in 1993 and its similar successor the Canada Child Tax Benefit in 1997, the latter program enjoying substantial real increases in its maximum payments into the present decade. Unfortunately, the current federal government hired the dumb and dumber institute of public policy and brought in the Universal Child Care Benefit (a throwback to family allowances) in 2006 and a nonrefundable child tax credit in 2007, two retrograde programs that resurrected horizontal and vertical inequities that the Canada Child Tax Benefit had cured. But the CCTB is still the main federal child benefit, and it is a classic example of a negative income tax-style GAI. Moreover, all provinces and territories except PEI now have their own income-tested child benefits, a number of them delivered through the federal income tax system along with the federal CCTB.

Seniors benefits also use GAI technology. Low-income seniors receive the Guaranteed Income Supplement, an income-tested benefit, which supplements their Old Age Pension (which itself uses a small GAI technique by way of the clawback on upper-income recipients); together, the two programs assured an income floor of $13,462 for single seniors and $25,023 for couples in 2007. Most provinces and territories also provide income-tested supplements to their low-income seniors.

GAI technology plays a smaller role in the area of income programs for working-age adults, which is unfortunate. The twin pillars of adult benefits are federal Employment Insurance and provincial/territorial welfare; neither is income-tested, though EI contains a small income-tested child benefit. Welfare is a needs-tested system, which is very different from an income-tested program. The newly introduced federal Working Income Tax Benefit (WITB) is also an income-tested program, using a mix of geared-to- income employment earnings and net family income. Several provinces offer income-tested earnings supplements as well.

Ottawa also provides the refundable GST credit, refundable medical expense supplement and income-tested Child Disability Benefit, the latter delivered through the Canada Child Tax Benefit. The provinces and territories also offer various refundable tax credits.

But GAI technology could and should play an even larger role in Canada's income security system. I want to give you an example of how this might be done, using the Caledon Institute's work over the years in developing a new 'architecture' of social policy, in which GAI techniques figure prominently.

The premise to our project is what we call the 'modernization thesis': Canada's social programs were largely conceived and built in a different era; they require significant reform to meet the heavy demand imposed on them from profound economic, social, demographic and political changes. I can only briefly sketch out our main ideas and proposals for reform; there is no way I could cover this in any detail today.

One of our early ideas was what came to be known as the Seniors Benefit. This proposal integrated the Old Age Pension, Guaranteed Income Supplement, age and pension income tax credits into a single benefit, based on family income (i.e., the combined income of the spouses in the case of couples). One of the key aims of this reform was to correct the present system's horizontal inequity resulting from the mixture of benefits based on individual income (OAS and the age and pension income credits) and family income (the GIS): one- and two-earner couples at the same income level receive different amounts of senior benefits. Throughout most of the income range, two-income couples receive more benefits than do one-income couples. One-income couples have the advantage over two-income couples at the low and high ends of the income spectrum. The Seniors Benefit also would have reaped savings from upper-income seniors to allow an increase for lower-income seniors. The federal government took up our proposal, and we worked with them on it. It was proposed in a Budget but eventually died because it ran afoul of opposition from RRSP merchants and women's groups: The old age pension is the third rail of Canadian politics. The proposal still makes policy sense, but its politics are dicey. I doubt that the current or for that matter any future government would risk it again.

Fortunately another of our ideas, the National Child Benefit, was successful, and we worked closely with the federal government on it. The central metaphor for the reform was the welfare wall, a term coined by my colleague Sherri Torjman when she and I did a project on the interaction of the tax and welfare systems for the Ontario Tax Reform Commission. By welfare wall, as applied to child benefits, we mean that recipient families which manage to move from welfare to the workforce risked the loss of thousand of dollars as well as income in kind, because they would forfeit welfare-embedded child benefits as well as supplementary health care and child care, while also seeing their typically low wages reduced by income and payroll taxes and facing work-relate expenses such as clothing, child care and transportation.

The National Child Benefit reform was a partnership between the federal and provincial/ territorial governments. Ottawa redesigned and enriched the Child Tax Benefit, which became known as the Canada Child Tax Benefit. As the federal child benefit increased, provinces and territories could reduce their welfare-provided child benefits so long as they reinvested resulting savings in other programs for low-income families with children. As I mentioned earlier, virtually all the provinces and territories now run income-tested child benefits of their own. So the National Child Benefit has removed (or is still reducing) child benefits from welfare and replaced then with increases in income-tested programs, à la Negative Income Tax.

The National Child Benefit built an integrated child benefit, but it is now necessary to grow the Canada Child Tax Benefit into an adequate child benefit, adequacy being defined as providing

a maximum $5,000 per child – a rough estimate of the basic cost of raising a child in a low-income family. We are not that far from the $5,000 target: Maximum benefits from the three federal child benefit programs (the Canada Child Tax Benefit, Universal Child Care Benefit and non-refundable child tax credit) this year amount to $4,471 for an Ontario single parent with a child under six years old. Caledon has designed and costed a $5,000 maximum CCTB that would significantly boost benefits not only to poor families, but also to the modest- and middle-income majority of Canadian families who have not seen any improvements in their child benefits in many years. In GAI-like fashion, our proposed $5,000 CCTB would replace two programs (the ill-conceived Universal Child Care Benefit and nonrefundable child tax credit) with a single, geared-to-income CCTB. That proposal would establish a full-blown GAI for children. It is also a necessary condition for the reform of adult benefits, discussed next.

We are also working on architectural changes to adult benefits, that vast territory of Canadian social policy that is badly in need of reform. Central to our work are changes to Employment Insurance and welfare, the twin pillars of income insecurity, what with the draconian decline in eligibility for EI and the oft-lamented inadequacies of welfare. I can only provide a cursory sketch of our proposals: Have a look at our paper *Towards a New Architecture for Canada's Adult Benefits* (written by Michael Mendelson, Sherri Torjman and Ken Battle) for a critique of the current system and discussion of our proposals for reform.

In our view a modern system of adult benefits should serve four major objectives: 1. temporary earnings replacement for all jobless Canadians, 2. long-term income support for people with severe disabilities and others who cannot reasonably be expected to earn most of their income from employment, 3. access to essential services (e.g., training and employment, supplementary health care, disability supports) for all low-income Canadians, whether on income assistance or in the workforce and 4. policies and programs to help make work pay.

To achieve these objectives, we envisage a three-tier core income security system, flanked by allied programs and services including minimum wages, labour standards, earnings supplements, supplementary health care, child benefits and child care.

The first tier would serve what we call the unemployment assistance function, providing time-limited support for the temporarily unemployed. It would be comprised of two programs. The first is a reformed Employment Insurance, major changes including dropping the regional variation element currently used in the calculation of eligibility for and maximum duration of benefits, and strengthening its earnings-replacement capacity. For the many unemployed who do not qualify for EI, we would add a new program, which for want of a better term we have dubbed Temporary Income. With a simple flat-rate benefit structure and an income test, Temporary Income would introduce GAI technology into unemployment benefits. EI would continue to be a contributory social insurance program, but Temporary Income would be funded out of general revenues. We envisage tier one as being a federal responsibility.

The second tier, Employment Preparation, would serve employable working-age adults who are likely to remain unemployed for a longer time and are in financial need. It would replace

provincial and territorial welfare programs, though those jurisdictions would still run and finance the new system. Employment Preparation would be GAI-like in its simplicity. It would replace the current typically complex rate structure of welfare with a wage-like benefit that is flat-rate, bi-weekly and could include C/QPP contributions. The focus would be on preparation for work (e.g., through training, educational upgrading and other skills and learning services) and active job search. Income benefits would support clients while they pursue individually-tailored employment preparation plans in cooperation with opportunity planners. The older among you may notice that we have based the individualized planning concept on one of the key proposals of the classic 1988 *Transitions* report on reforming Ontario's welfare system.

The third tier of our proposed adult benefits, Basic Income, is intended to ensure an income-tested safety net for people who cannot reasonably be expected to earn an income from work – the original purpose of social assistance. The program's title indicates its GAI pedigree. Initially, we are focussing on persons with severe disabilities, who make up a significant portion (about 44 percent nationally) of the welfare caseload. In a forthcoming report, we will offer a costed proposal for a GIS-like Basic Income and a refundable disability tax credit.

Our proposals include a federal-provincial/territorial reinvestment agreement à la National Child Benefit: The provinces and territories would reap sizeable savings because Ottawa would fund and operate Basic Income, thus significantly reducing provincial/territorial welfare caseloads. The provinces and territories would be expected to reinvest the resulting savings in supports for persons with disabilities, which they fund and operate.

The provinces and territories also would reap savings on short-term employable cases, which would be served by the federal Temporary Income program instead of welfare. Such savings could be reinvested in employment and training services under Employment Preparation, supplementary health, drug and dental care, and earnings supplementation.

Although the heart of our architecture for adult benefits consists of income benefits, services also play a crucial role. To break down that part of the welfare wall created by welfare-tied services, there would be income-tested services available to all low-income persons. These include supplementary health, dental care and prescription drugs; disability supports and other services; early learning and child care; and provision to meet emergency needs that currently is under welfare.

Another key element of our architecture for adult benefits is earnings supplementation for the working poor, a core part of any GAI scheme. Several provinces (Saskatchewan, Alberta, New Brunswick and Quebec) offer earnings supplements, Quebec having had various programs over the past two decades. A big step forward came in 2007 with the introduction of the federal Working Income Tax Benefit (WITB). However, WITB in its current form is too feeble (persons earning as low as the minimum wage on a full-time basis do not qualify) and so must be bolstered to provide a bigger benefit to a larger clientele. A good feature of the WITB is that it allows individual provinces and territories to reconfigure the program's parameters to better suit their needs and existing income supports, so long as the change is cost-neutral.

Although Caledon's architecture of social policy makes liberal use of GAI-inspired income-tested programs, we do not focus only on benefits targeted to low-income Canadians. Fundamental to our architecture is a multiple-tiered benefit structure intended to pursue more than just the poverty reduction objective. That structure combines broad-based programs for all or almost all Canadians with geared-to-income benefits targetted to the poor – both delivered within the same system. The broad-based programs include social insurances – the Canada and Quebec Pension Plans, Employment Insurance and Workers' Compensation.

One important reason for this approach is to avoid stigmatizing poor Canadians through ghettoizing programs like welfare. Instead, to the extent possible, they should be served within the same broad and inclusive system that serves poor and non-poor alike. That is why we favour increased use of income-tested programs, which do not stigmatize and marginalize their recipients. For example, our Basic Income proposal would enable social assistance recipients with severe disabilities to escape welfare and access a non-stigmatizing, income-tested benefit identical in design to the Guaranteed Income Supplement.

Canada's retirement income system has two main purposes – to provide an income floor beneath which no elderly person will fall (the anti-poverty objective) and to replace earnings so as to maintain a reasonable standard of living in retirement (the earnings-replacement objective). Old Age Security is a broad-based (quasi-universal) program that, along with the universal Canada and Quebec Pension Plans and tax deduction-rewarded Registered Pension Plans and RRSPs, is intended to serve the earnings-replacement objective. The anti-poverty objective is pursued by the income-tested Guaranteed Income Supplement, along with Old Age Security. In fact OAS serves double-duty as it plays a role in pursuing both objectives. Caledon's and the federal government's proposed Seniors Benefit would have strengthened the anti-poverty function and ended horizontal inequities by integrating existing programs (Old Age Security, the Guaranteed Income Supplement and the age and pension income credits) into a single, family income-tested program serving the majority of elderly Canadians.

Child benefits also display a tiered structure. Our proposal for a $5,000 Canada Child Tax Benefit, which would replace the Universal Child Tax Benefit and nonrefundable child tax credit, serves child benefits' two core objectives – poverty reduction and parental recognition (aka horizontal equity). The structure is simpler than the retirement income system, but displays the same combination of broad based and targeted benefits. The CCTB has two parts – the base benefit, which currently goes to 9 in 10 families and would be virtually universal under Caledon's proposal – and the National Child Benefit Supplement (NCBS), which sits on top of the base benefit and goes to low-income families. Caledon's proposed $5,000 CCTB would increase the base benefit but leave the NCBS as is, resulting in significant benefit increases for the large majority of families, and bolstering both the poverty reduction and parental recognition objectives.

Our proposed architecture for adult benefits involves several tiers aimed at meeting the needs of a large and heterogeneous group – the short-term unemployed, through a combination of the income-tested Temporary Income program and non income-tested social insurance-based

Employment Insurance; the longer-term employable unemployed who may need services as well as income support, through our proposed Employment Preparation system; and low-income Canadians with who cannot reasonably be expected to work. We would begin the latter with persons with severe disabilities, who would get the new Basic Income program and a refundable disability tax credit. Our architecture also includes earnings supplements for the working poor and a range of services for both the working poor and those on assistance.

I've discussed government programs so far, but we see a vital and growing role for the non-governmental sector, especially community, in social policy. Indeed, a good half of our work at Caledon deals with various aspects of building community capacity, such as the pioneering Vibrant Communities project. Communities across Canada are becoming increasingly interested in poverty reduction and their role in it.

I want to return briefly to the concept of Guaranteed Annual Income. The A in the acronym GAI signifies Annual, presumably to ensure that the guaranteed income is paid year-round. But GAI enthusiasts might want to change that to Adequate, contentious and problematic as that word can be in social policy. I'm saying this because, in reality, no income program that I know seriously tackles the question of whether or how to gauge its adequacy – a possible exception being Caledon's proposed $5,000 Canada Child Tax Benefit. I also raise the issue because there have been GAI proposals in the past that pay less than the status quo to some recipients. Invariably this matter raises the thorny issue of poverty lines, which some people think should be used as a yardstick with which to measure adequacy of income programs. These issues may be hard to handle, but they are important to the reform of social policy, including GAI.

A related issue concerns the third word in GAI, income. Income supports are crucial, but there is more to fighting poverty than income. Services also play a vital role in contemporary social policy and in Caledon's architecture, especially for low-income persons and for Canadians with disabilities and their families. A GAI that deals only with income is too narrow. At the very least, GAI proposals should describe how they would affect and relate to relevant services.

One more point and then I'll conclude. Reforming social policy is extraordinarily difficult, as I have learned first hand over my 30-plus year career. I have characterized the dominant pattern of change as 'relentless incrementalism', which I define as: "strings of reforms, seemingly small and discrete when made, that accumulate to become more than the sum of their parts. Relentless incrementalism is purposeful and patterned, not haphazard and unintended."

Governments have pursued a strategy of relentless incrementalism (of which 'social policy by stealth' has been a highly successful technique) to make significant changes in income security policy, eschewing 'big bang' attempts at reform that have not proven successful in the past. One of the chief reasons for the relative political success of relentless incrementalism is that the changes it imposes are poorly understood by the public and typically misrepresented and misunderstood by social groups and policy commentators on both left and right. The policy areas of child and elderly benefits and disability tax measures are good examples of relentless

incrementalism. Of course, decrementalism also can occur, as evidenced by the partial deindexation of the personal income tax system between 1986 and 2000 and the recent creation of the back-to-the-future Universal Child Tax Benefit and nonrefundable child tax credit.

The National Child Tax Benefit is a rare reform that, although it built on incrementalist changes to federal child benefits, successfully managed a planned structural change in federal and provincial/territorial child benefits, effected by co-dependent changes made by each order of government. But proposals for guaranteed income, and Caledon's architecture, entail larger structural changes than the National Child Benefit, though Caledon's are more sweeping than a GAI. There are several obstacles to large-scale reforms – including cost, program entrenchment, intergovernmental relations, resistance from stakeholders, and lack of understanding on the part of politicians, social advocates and the media not only of proposals for change but also the current system and its defects. I'm in no way suggesting that we give up before we start, but we should be aware of how hard the road to reform can be.

Regarding cost, I note that Senator Segal's Motion calls for GAI proposals that will "ensure that existing income security expenditures at the federal, provincial and municipal levels remain at the same level". One could come up with proposals that would be cost-neutral, but the results may not be what you want. An excellent study on GAI done for the mid-1990s Social Security Review devised two illustrative proposals for GAI – one a negative income tax, the other a universal demogrant. The negative income tax proposal was designed so as to cost the same as current federal social spending, which then included cost-sharing of provincial social assistance under the Canada Assistance Plan. But that option produced far more losers than winners and only slightly lowered the poverty rate, though it did reduce the depth of poverty. The net cost of the universal demogrant option was $123 billion in today's dollars, so Senator Segal is wise to have avoided the demogrant approach in favour of an income-tested approach! The cost of GAI options will depend not only on their generosity and design, but also how much of the existing system they demolish.

In conclusion, Caledon's architecture for reform makes plentiful use of GAI technology, in the form of income-tested programs and program simplification, and it pursues some GAI objectives, among others. But our model builds on Canada's existing system of social security, though it calls for substantial structural changes and does away with some programs (notably welfare). Our architecture complicates things in the sense that it adds new programs, but seeks to make these new benefits simpler than the status quo. Caledon's architecture builds inclusive tiered systems combining broad-based and targetted benefits, pursuing more than poverty reduction objectives. It sees important roles for services and communities in poverty reduction.

Guaranteed Annual Income schemes and Caledon's architecture both seek to build a stronger social safety net. We'll have to wait to see what the Senate Committee on Social Affairs comes up with to compare the two. But we don't think that a GAI alone can do the job. To adapt that opaque slogan from the inscrutable Mackenzie King, a GAI if necessary, but not necessarily a GAI.