



The Practical Challenges of Creating a Guaranteed Annual Income in Canada

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Contents

Executive summary / iii

Introduction / 1

Defining a Guaranteed Annual Income and
detailing the existing income support system / 3

Assessing the arguments for a Guaranteed Annual Income / 13

The challenge of designing a Guaranteed Annual Income Program / 27

The challenge of implementing a Guaranteed Annual Income / 38

Work disincentives and evidence from experiments
with a Guaranteed Annual Income / 47

Conclusion / 58

Appendix: Calculating the cost of provincial social services / 60

References / 62

About the authors / 74

Acknowledgments / 74

Publishing information / 75

Supporting the Fraser Institute / 76

Purpose, funding, & independence / 76

About the Fraser Institute / 77

Editorial Advisory Board / 78

Executive summary

The idea of a cash transfer from government to individuals or families to provide a minimum annual income has entered and exited Canadian policy discussions for decades, with support coming from across the ideological spectrum. The concept, usually referred to in Canada as a Guaranteed Annual Income (GAI), has received renewed attention, so this paper examines it in more detail. It concludes that while the idea has conceptual appeal, particularly the potential for greater efficiency and administrative savings in the delivery of income support programs, there are important practical challenges that cast serious doubt on the plausibility of a GAI reform for Canada.

Given the lack of concrete or universally accepted definition of a GAI, the paper adopts a broad definition. A GAI is defined as a federal program that provides a cash transfer from government to individuals or families to ensure a minimum annual income. The cash transfer is usually conceived as being unconditional in the sense that there would be no special requirements for citizens to qualify (including work requirements), with the possible exception of an income test. Critically, a GAI is not intended to be an add-on program. Rather, it is supposed to replace the existing and very complex income support system.

To illustrate the magnitude of a GAI reform, the existing income support system—after accounting for federal, provincial, and local government spending and tax measures—is estimated to have cost \$185.1 billion in 2013, or roughly 10 percent of Canada’s economy. Together, Canadian governments collectively spend 22.0 percent of program expenditures directly on cash and in-kind transfers for social benefits. Introducing a GAI would therefore mean fundamentally reforming approximately a quarter of total government activity in Canada, as measured by total program spending.

By virtue of being a single program operated at one level of government, a GAI would in principle be much simpler and less costly to administer than the current income support system. It would do away with administrative duplication that inevitably occurs in a multi-program, multi-government system. Eliminating the various eligibility conditions for receiving government transfers would also make a GAI relatively cheaper to operate, since

fewer resources would be needed for monitoring and ensuring that recipients comply with the program.

The potential for administrative savings and increased efficiency is by far the most compelling conceptual argument in support of a GAI. However, real challenges surface when we move from the conceptual notion of a GAI to practical design and implementation. Practical design challenges stem from a lack of clarity and agreement on even basic design features. Various program designs are regularly discussed (negative income tax, universal demogrant, and income top-up) but each has important yet very different implications. Details on key program features require balancing competing priorities with regard to providing an adequate transfer amount, keeping program costs low, and minimizing work disincentives.

But the biggest challenge of all is implementing a GAI that captures the full benefit of simplicity and administrative savings. For this to happen, all three levels of government (federal, provincial, and local) which share responsibility for operating Canada's income support system would have to agree on reform, and some governments would have to abdicate their responsibility in the existing income support system to make way for a single GAI. A GAI would face further challenges when it comes to replacing existing programs that serve specific purposes and/or target certain groups (Old Age Security, the GST/HST Credit, and programs for the disabled, to name a few). There is a risk that the bulk of the current system would be preserved, making the GAI ultimately an add-on rather than a replacement program. There is also a possibility that implementing the reform could become an administrative disaster, requiring large one-time costs that would cut into the near-term savings from implementing a GAI. Finally, if we assume these challenges can be overcome and a GAI reform successfully implemented, over time a major risk after implementation comes from special interest groups, who, through political pressure, would expand or complicate the program, thereby undermining its chief advantage.

If we put the practical challenges of implementing a GAI aside, we can still glean valuable insights from the available evidence on the effect of a GAI on work incentives. Indeed, one of the most common and important criticisms about the program is that it discourages people from working. One Canadian and four American experiments in the late 1960s and 1970s allowed researchers to measure the program's effect on labour supply. The results generally point to a decline in hours worked by those who received a GAI compared to a control group who did not have access to the program. This fuels a more general concern about current income support programs, which tend to create similar work disincentives.

Despite the renewed interest, a GAI reform is unlikely to become a reality in Canada. But there may be alternative reforms that could more plausibly improve the income support system and achieve the same basic goal

of guaranteeing a minimum level of income. One possibility is to further examine the role of work-based subsidies (such as the Working Income Tax Benefit), which encourage able-bodied Canadians to work and help to avoid the trap of long-term dependency on government programs.

Introduction

The idea of a cash transfer from government to individuals or families to provide a minimum annual income has entered and exited policy discussions for decades in Canada. While Nobel laureate economist Milton Friedman is often credited for popularizing the idea as far back as 1962 (Friedman, 1962), other prominent economists such as Friedrich Hayek have also supported the idea (Zwolinski, 2013).¹ The concept, usually referred to in Canada as a Guaranteed Annual Income (GAI), has received renewed attention in part due to an upcoming referendum in Switzerland on the creation of a universal cash transfer to Swiss citizens and a pilot program in Greece that will provide a cash transfer for those with low incomes.² Canada has a history of debating similar proposals³ and there was even an experiment with a guaranteed income conducted in the 1970s in the province of Manitoba (the program was called MINCOME).

1. Professor Milton Friedman referred to his idea as a “negative income tax,” but in essence he was describing a form of guaranteed annual income. Under the program recommended by Milton Friedman, anyone earning an income below the basic exemption would receive a transfer equal to half the difference between their income and the basic exemption. That is, in the language used in this paper, Milton Friedman proposed a guaranteed annual income with a basic benefit that is half of the basic exemption and has a reduction rate of 50 percent.

2. The proposal in the Swiss referendum is to provide 30,000 Swiss francs or approximately \$37,000 Canadian a year to every citizen. The Greek pilot program will be implemented in 13 municipalities for six months and provide a cash transfer of 200 euros per month (roughly \$300 Canadian) plus 100 euros or 50 euros for every additional adult or child respectively. (The Swiss franc and euro currency conversions are based on the Bank of Canada’s Monthly Average Currency Exchange Rates, averaged over the first six month of 2014: <<http://www.bankofcanada.ca/rates/exchange/monthly-average-lookup/>>). This does not account for differences in purchasing power in the two countries.)

3. One early proposal for a Canadian guaranteed annual income was made by a Senate committee in 1971 and another was made in 1985 by the influential Royal Commission commonly referred to as the Macdonald Commission. This is the same Royal Commission that famously recommended negotiating free trade with the United States.

To this day, different versions of a GAI are supported by proponents from across the ideological spectrum including former Conservative Senator Hugh Segal, the Green Party of Canada, and the Broadbent Institute.⁴ During the 2014 Liberal Party of Canada Biannual Convention, delegates endorsed a “basic annual income” as a policy resolution.⁵ In addition, a recent poll commissioned by the Trudeau Foundation found that 46 percent of Canadians favoured a guaranteed income policy, while 42 percent opposed it (Environics Research Group, 2013).⁶ Given the renewed interest in a guaranteed income, this paper examines the concept in more detail.

A guaranteed annual income would in principle replace the existing bureaucratic income support system⁷ with a direct transfer that ensures recipients achieve some basic income level. A GAI program would theoretically be much simpler for governments to administer and cost less to operate than the current income support system. Indeed, administrative simplicity has been a key part of a guaranteed income’s appeal for many advocates from Milton Friedman onwards. However, this paper argues that the practical challenges involved in creating a guaranteed income program that replaces the current income support system casts serious doubt on the plausibility of this reform for Canada.

The first section defines a guaranteed annual income and describes Canada’s existing income support system. The second assesses the arguments used in favour of a guaranteed income including the potential for administrative savings. The third section points out challenges in designing a guaranteed income program, while the fourth highlights the more difficult challenge of implementing a GAI in Canada. The fifth section explores the evidence on work disincentives of a guaranteed annual income, drawing from experiments in Canada and the United States during the 1960s and 1970s; it also discusses the work disincentives that exist under the existing income support system. The final section summarizes and concludes.

4. Some Canadian organizations exist solely to promote the idea of a guaranteed income including the Basic Income Canada Network (see <<http://biencanada.ca>>) and the Basic Income Pilot (see <<http://www.basicincomepilot.ca>>).

5. While the policy resolution does not mean that it will be part of the party platform during an election, it does make the Liberal Party of Canada the first major national party to officially endorse the concept of a guaranteed annual income (see Liberal Party of Canada, 2014).

6. The survey presented a guaranteed annual income as a cash transfer that would “replace the current economic assistance programs” with the size of the transfer reducing “with every dollar of income people earn” (Environics Research Group, 2013: 3).

7. In this paper, income support system refers to all federal, provincial, and local programs that are designed to increase recipients’ income through cash transfers, in-kind transfers, or market manipulation such as price floors. It is beyond the scope of this paper to discuss the principles and benefits of having an income support system.

1. Defining a Guaranteed Annual Income and detailing the existing income support system

Despite being debated for decades, no concrete and universal definition of a guaranteed annual income exists. This often leads to confusion and uncertainty about what is actually being discussed. This section defines the conventional notion of a guaranteed annual income. Critical to the definition is that the program would replace the income support system. The section also gives an overview of the existing system and the complexities involved, in order to motivate the thinking behind a guaranteed income program.

Defining a Guaranteed Annual Income

Broadly speaking, a guaranteed annual income is a cash transfer from government to individuals or families to provide a minimum annual income. The cash transfer is usually conceived of as being unconditional in the sense that there would be no special requirements for citizens to qualify, with the possible exception of an income test.⁸ Recipients would receive the cash transfer even if they are able to work but not seeking employment. Although programs with work requirements that share the broad goals of a GAI are sometimes debated, the defining feature of a guaranteed income is the unconditional cash transfer (Hum and Simpson, 2005).

Importantly, a guaranteed income is typically not conceived as being yet another social program to be added to the existing array of income support programs. Instead, it is meant to be the sole transfer from all governments. The strongest case for a guaranteed income rests on this idea, since it offers the opportunity to collapse the numerous existing income support programs into a single and relatively simpler program with lower operational

8. In practice, there would likely be some minimum requirements such as having an address or being above a certain age. Overall eligibility requirements would, however, be less stringent than those in many existing income support programs.

costs. To capture the full potential for administrative savings, a guaranteed annual income must replace, not expand, the existing income support system.

Unlike the current income support system, which crosses multiple levels of government (federal, provincial, and local), a guaranteed income would, by virtue of being a single program, operate only at one level of government. In Canadian debates and discussions, a GAI is almost universally assumed to be a federal program.⁹ For the purposes of this paper, a guaranteed annual income is defined as a single unconditional cash transfer program operated by the federal government that replaces the current multi-layered income support system.

The complexity of the current system

A key feature of a guaranteed annual income is replacing the existing income support system, which crosses all three levels of government (federal, provincial, and local) and involves various interactions between them. In some cases, policy making responsibilities are shared, as is the case with the Canada Pension Plan. In other cases, one level of government has sole responsibility for the program (this is the case for the federally based Old Age Security and Employment Insurance programs).¹⁰ Provincial governments have ultimate authority over a number of income support programs—including, most notably, social assistance (or “welfare”), while the involvement of local governments in the income support system differs from province to province, with some local governments providing in-kind benefits through social/subsidized housing.¹¹

9. Conceptually, it is possible—and perhaps even desirable—for provincial governments to operate a guaranteed annual income, with each province designing and maintaining its own program. This option, however, is not typically discussed in the GAI literature.

10. Spending on Employment Insurance includes programs designed to help unemployed or underemployed Canadians reintegrate into the job market. Some of these programs are operated by provincial governments and funded by the federal government through Labour Market Development Agreements (Canada, Employment and Social Development Canada, 2014). Overall, however, Employment Insurance has been a federal responsibility since a constitutional amendment in 1940.

11. The income support system is further complicated by cost sharing arrangements. This is the basis for the Canada Social Transfer, which is a federal transfer to provincial governments to provide partial funding for education, child support, and social assistance programs. In 2012/13, the federal government transferred a total of \$11.9 billion to the provinces through the Canada Social Transfer (Canada, Ministry of Finance, 2013). Currently, the only restriction on the Canada Social Transfer is regarding minimum residency (there cannot be a minimum period that someone must live in a province before qualifying for provincial welfare). Before 1996/97, a previous version of the transfer, the Canada Assistance Plan, contained more conditions (Gauthier, 2012).

The rest of this subsection provides an overview of the scope and complexity of the existing income support system at each level of government. In doing so, it gives an illustration of what a single guaranteed annual income program could replace. The spending programs and tax measures discussed here are not meant to be a definitive list of what should be replaced. Nor is the list meant to be prescriptive. It merely offers a preliminary look at the income support system to contextualize what might be replaced by a GAI.

Income support as defined in this paper encompasses a broad range of programs. The following discussion is limited to programs and tax expenditures that are income-tested or targeted at particular individuals, namely parents with young children, the elderly, and/or the disabled.¹² This is partly based on the types of programs included in other analyses of a guaranteed annual income and the programs generally included in provincial social services spending, as reported in the provincial Public Accounts.

Starting at the federal level, **table 1** lists the seven largest federal income support programs along with each program's cost in 2013. The largest program is Old Age Security and its related programs (Guaranteed Income Supplement), which provide cash transfers to the elderly and additional supplements for low-income seniors. The cost of Old Age Security in 2013 is estimated at \$43.7 billion. Together, these seven federal programs provide transfers to various, often overlapping groups of people including seniors, parents, and low-income workers. Their combined cost totals \$117.7 billion. As part of a guaranteed annual income reform, these programs might be eliminated in their entirety or in part, or modified to serve a more narrow purpose.

Interestingly, some of the federal programs listed in table 1 are similar to a GAI in that they provide a cash transfer with minimal conditions. But they differ because the transfer is targeted to specific demographics. For instance, the Universal Child Care Benefit provides a cash transfer to parents with children under the age of six without any accompanying restrictions or requirements. Other federal programs such as Employment Insurance are more complicated and have more stringent rules and eligibility criteria.

Income support is also provided through the federal personal income tax system. **Table 2** is a non-exhaustive list of federal tax expenditures¹³ that give either direct or indirect income support/assistance. The tax expenditures in table 2 amount to an estimated \$13.6 billion in forgone tax revenue

12. The discussion does not distinguish between short term (e.g., Employment Insurance) and long-term (e.g., disability benefits) income support.

13. A tax expenditure provides exemptions, deductions, deferrals, and credits to qualifying taxpayers and represents forgone tax revenue to governments (Canada, Ministry of Finance, 2014a). The definition used by the federal government for tax expenditure is broader than what is typically used by other jurisdictions and includes several features that could be considered basic elements of the tax code.

Table 1
Seven largest federal income support spending programs, 2013

	\$ millions
Old Age Security	43,719
Canada Pension Plan	38,255
Employment Insurance	19,305
Child Tax Benefit	10,475
Universal Child Care Benefit	2,747
Social Housing	2,071
Working Income Tax Benefit	1,125
Total	117,697

Sources: Canada, Ministry of Finance, 2014a; CMHC, 2014; OSFI-OCA, 2010; OSFI-OCA, 2011; OSFI-OCA, 2013; Statistics Canada, 2014a.

Notes: The Child Tax Benefit, Universal Child Care Benefit, and Working Income Tax Benefit are operated through the income tax system but are considered to be program spending and not tax expenditures by the federal government (Canada, Ministry of Finance, 2014). The administrative costs for these programs are not included.

Federal social housing programs are provided through the Canada Mortgage and Housing Corporation.

Table 2
Select federal income support tax expenditures and foregone revenue, 2013

	\$ millions
GST/HST Credit	4,115
Age Credit	2,830
Child Tax Credit	1,590
Pension income splitting	1,090
Pension Income Credit	1,085
Child care expense deduction	955
Eligible Dependent Credit	825
Disability Tax Credit	700
Family Caregiver Tax Credit	165
Children's Fitness Tax Credit	115
Caregiver Credit	110
Children's Arts Tax Credit	38
Infirm Dependent Credit	6
Total	13,624

Source: Canada, Ministry of Finance, 2014a.

Notes: The tax expenditures included in the table target people with low income, the disabled, the elderly, and parents with young children. The table does not include tax expenditures that could be considered a basic feature of the tax system such as deductions for the Basic Personal Amount or RRSP contributions.

Eliminating all the tax expenditures in this table would not necessarily translate to an increase of \$13.6 billion in revenue (Canada, Ministry of Finance, 2014a). The \$13.6 billion figure does not take into account behavioural changes that may occur if the tax expenditures are removed. Furthermore, many tax expenditures interact in various ways so that removing one tax expenditure could impact the amount of forgone revenue of another tax expenditure.

for the 2013 tax year (Canada, Ministry of Finance, 2014a).¹⁴ The largest tax expenditure is the GST/HST Credit, which is a refundable tax credit intended to provide sales tax relief for low income tax filers; it represents \$4.1 billion in forgone revenue. The second largest is the Age Credit (\$2.8 billion) followed by the Child Tax Credit (\$1.6 billion).¹⁵ In addition to these programs and tax expenditures, the federal government provides targeted income support to First Nations. In 2011/12, Aboriginal Affairs and Northern Development spent \$7.9 billion on aboriginal people, or \$9,056 per aboriginal person (Milke, 2013).

Each province maintains its own income support programs, which would also be part of a guaranteed annual income reform.¹⁶ For example, Ontario Works, the province's social assistance/welfare program, provides a cash transfer based on family size and housing costs as well as other benefits such as drug coverage (Canada, Employment and Social Development Canada, 2010). There can be important differences between provinces in terms of the conditions and requirements for receiving social assistance. In British Columbia, with some exceptions, applicants for social assistance must show that they had worked a minimum amount for two consecutive years before applying, while the Ontario Works program has no such requirement (Canada, Employment and Social Development Canada, 2010).

The size of the social assistance cash transfer depends on household type and varies by province. A household consisting of a single employable adult typically receives a smaller cash transfer than other household types. In 2013, Newfoundland and Labrador's social assistance program provided the largest maximum cash transfer to single employable households (\$10,296), while New Brunswick's social assistance program provided the smallest (\$6,444) (Tweddle et al., 2014). Multi-membered households with children generally receive a larger cash transfer from social assistance. For a household with two adults and two children (aged 10 and 15), in 2013 this ranged from \$12,341 (in New Brunswick) to \$18,832 (in Prince Edward Island) (Tweddle et al., 2014).¹⁷

14. The tax expenditures in table 2 are either income-tested or targeted at people with children, the elderly, and/or the disabled. Table 2 does not generally include items that are a basic feature of the tax system such as deductions for the Basic Personal Amount.

15. It should be noted that implementing a guaranteed annual income and simultaneously eliminating or significantly scaling back tax expenditures would have the added benefit of simplifying the tax code and reducing the economic cost of complying with personal income taxes (Speer et al., 2014).

16. For an overview of provincial social assistance programs, see Canada, Employment and Social Development Canada (2010) and Tweddle et al. (2014).

17. All figures include the basic social assistance cash transfer as well as additional regularly paid social assistance transfers.

Table 3 displays the amount each province spends on social services. The composition of programs under the social services banner differs by province due to accounting differences in the respective Public Accounts, which are the data sources for the calculations. However, spending on social services generally includes social assistance, programs for the disabled, programs for the elderly, programs for assisting and protecting children, counseling programs for jobs and addiction, and drug coverage programs targeted at low income households. In 2012/13, combined provincial spending on social services totalled \$38.0 billion.

The provinces also provide income support through the tax system, though the programs are typically administered by the federal Canada Revenue Agency (CRA). For illustrative purposes, **table 4** displays the various tax expenditures offered by the provinces for income support. The table includes income-tested tax expenditures and tax expenditures targeted at parents with young children, the elderly, and/or the disabled. The sum of these tax measures equalled \$11.2 billion in forgone revenue in 2013.

Table 3
Provincial spending on social services, 2012/13

	\$ millions
British Columbia	4,337
Alberta	4,829
Saskatchewan	1,159
Manitoba	1,128
Ontario	14,737
Quebec	8,899
New Brunswick	1,056
Nova Scotia	1,031
PEI	89
Newfoundland & Labrador	737
Total	38,001

Sources: Alberta, Treasury Board and Ministry of Finance, 2013; British Columbia, Ministry of Finance, 2013; Manitoba, Ministry of Finance, 2013; New Brunswick, Ministry of Finance, 2013; Newfoundland & Labrador, Ministry of Advanced Education and Skills, 2013; Newfoundland & Labrador, Ministry of Finance, 2013; Newfoundland & Labrador, Ministry of Health and Community Services, 2013; Nova Scotia, Ministry of Finance, 2013; Prince Edward Island, Ministry of Finance, Energy and Municipal Affairs, 2013; Quebec, Ministry of Finance, 2013; Saskatchewan, Ministry of Finance, 2013.

Notes: The compilation of which programs are included in each province vary due to differences in reporting in the Public Accounts. In general, social services here includes: social assistance, social housing, programs for the disabled, programs for the elderly, programs for the assistance and protection of children, job and addiction counseling programs, and drug coverage programs targeted at low income households. In cases where social housing was not included in social services it was added to provide a more complete account of spending on income support programs. For more details see Appendix A.

Comparable figures on social services spending were not readily available in both the Quebec and Newfoundland & Labrador Public Accounts. The figures seen here were constructed using Ministry schedules in the Public Accounts or Ministry Annual Reports. For more details see Appendix A.

Cash and in-kind transfers as well as administrative costs are included.

Social services spending reported here is a conservative measure compared to social protection spending as reported by Statistics Canada CANSIM Table 385-0040, which broadly includes similar spending items as social services but also includes refundable tax credits. The estimated social services spending in Quebec (\$8.9 billion) is particularly conservative compared to spending on social protection (\$16.7 billion).

Table 4
Select provincial income support tax expenditures and forgone revenue, 2013

	\$ millions
British Columbia	
BC Low Income Climate Tax Credit	194
Married and equivalent-to-married credits	97
Tax credits for persons with disability and medical expenses	70
Credits for persons older than 65 years	62
Sales Tax Credit	55
Pension income tax credit	24
Children's fitness and arts tax credits	8
BC Seniors' Home Renovation Tax Credit	4
Total	514
Alberta	
Eligible dependant amount	87
Age amount	80
Pension income amount	38
Disability amount	33
Disability amount transferred from a dependant	31
Caregiver amount	14
Total	283
Saskatchewan	
Dependent child tax credit	78
Age tax credit	40
Disability tax credit	14
Pension income tax credit	14
Child care expenses	13
Supplement to age tax credit	13
Caregiver tax credit	2
Total	173
Manitoba	
Family Tax Benefit	56
Age amount	34
Primary Caregive Tax Credit	21
Disability amount	20
Eligible dependent	17
Private pension	16
Child-care expenses	15
Fitness Tax Credit	3
Total	182
Ontario	
Ontario Trillium Benefit	2,395
Ontario Tax Reduction	395
Age Credit	285
Pension income splitting	250
Ontario Senior Homeowners' Property Tax Grant	210
Child Care Expense Deduction	190
Disability Credit	135
Pension Income Credit	115
Eligible Dependent Credit	85
Caregiver Credit	25
Infirm Dependent Credit	1
Total	4,086

Table 4 continues on page 10

Table 4, continued

Quebec	
Child assistance payments	2,140
Refundable solidarity tax credit	1,721
Tax credit for child care expenses	557
General work premium	320
Home maintenance of an elderly person	312
Tax credit for retirement income	195
Tax credits regarding essential needs	170
Retirement income splitting between spouses	129
Supplement for handicapped children	82
Natural caregiver of adults	54
Tax credit for experienced workers	43
Tax credit for person suffering from a severe and prolonged impairment in physical or mental functions	27
Refundable tax credit for youth activities	7
Work premium for persons with severely limited capacity for employment	6
Purchase or rental of equipment to help seniors continue living independently at home	5
Supplement to long-term recipients who exit last-resort financial assistance or Youth Alternative Programs	5
Independent living tax credit for seniors	3
Total	5,776
Nova Scotia	
Affordable Living Tax Credit	66
Healthy Living Tax Credit	1
Total	68
Newfoundland and Labrador	
Seniors' Benefits	39
Home Heating Rebate	15
Progressive Family Growth and Family Leave Benefits	10
Low Income Tax Reduction	8
Child Benefit	8
HST Credit	4
Child Care Tax Credit	4
Total	87
Grand Total	11,169

Sources: Alberta, Treasury Board and Ministry of Finance, 2014; British Columbia, Ministry of Finance, 2014; Manitoba, Ministry of Finance, 2014; Newfoundland & Labrador, Ministry of Finance, 2014; Nova Scotia, Ministry of Finance, 2014; Ontario, Ministry of Finance 2013a; Ontario, Ministry of Finance 2013b; Quebec, Ministry of Finance, 2014 Saskatchewan, Ministry of Finance, 2014.

Notes: The tax expenditures included in this list are the ones that target people with low income, the disabled, the elderly, and parents with young children.

The provincial tax expenditures were generally taken from government budget documents, which may not include all tax expenditures offered by the provinces.

The governments of New Brunswick and Prince Edward Island do not publish tax and expenditure reports. Tax expenditures with less than a million dollars in forgone revenue are not included.

Forgone revenue for British Columbia, Manitoba, Nova Scotia, and Newfoundland & Labrador are for the fiscal year 2013/14. The rest are for the calendar year of 2013.

The Ontario Trillium Benefit is made up of three subcomponents: (1) Ontario Sales Tax Credit; (2) Ontario Energy and Property Tax Credit; and (3) Northern Ontario Energy Credit. An estimate for the 2013 Northern Ontario Energy Credit is not available so it is excluded from the total. According to Ontario's 2012/13 Public Accounts, the Northern Ontario Energy Credit transferred \$24.3 million to recipients (Ontario, Ministry of Finance, 2013a).

Local governments play a role in the income support system too, but the nature of their role differs by province. In Ontario, municipalities have an administrative and financial role, although municipal policy making is largely limited to providing social housing and discretionary benefits under the Ontario Works umbrella (Stapleton, 2007).¹⁸ By contrast, municipalities in British Columbia have no direct role in the province's social assistance programs. However, they often provide social housing, particularly in Metro Vancouver (Bish and Clemens, 2008). In total, local governments across the country provide \$4.6 billion in cash and in-kind transfers for social benefit spending, which includes income support and social security (Statistics Canada, 2014b).

Table 5 combines the above income support spending and tax measures for all levels of government. The goal is to provide a rough estimate of the dollar amount Canadian governments currently spend on income support programs. In 2013, total income support is estimated at \$185.1 billion or roughly 10 percent of gross domestic product (GDP). If governments were to transfer the \$185.1 billion to every Canadian with income currently below \$10,000, the amount per person would be \$34,637 (**table 6**). If transferred to all Canadians with incomes below \$15,000 and \$20,000, the amounts per person would be \$23,092 and \$17,273, respectively.

Table 5

Estimated total combined federal, provincial, and local income support, 2013

	\$ millions
Federal spending programs	117,697
Federal tax expenditures	13,624
Provincial spending programs	38,001
Provincial tax expenditures	11,169
Local government social benefit spending	4,637
Total combined income support	185,128

Sources: Table 1; Table 2; Table 3; Table 4; Statistics Canada, 2014b.

Note: Provincial spending programs are for the year 2012/13.

¹⁸ For a list of discretionary programs offered by municipalities under Ontario Works, see Ontario, Ministry of Community and Social Services (2013).

Table 6**Estimated total combined federal, provincial, and local government income support per person by income group, 2013**

	Number of people (thousands)	Income support per person (\$)
Total income under \$10,000	5,345	34,637
Total income under \$15,000	8,017	23,092
Total income under \$20,000	10,718	17,273

Sources: Table 5; Statistics Canada, 2013a; Statistics Canada, 2013b; calculations by authors.

Notes: The estimates of income support per person are based on combined federal, provincial, and local government support totalling \$185.1 billion (see table 5).

Per person figures are based on the number of people in Canada who are over 15 years of age.

The number of people under each total income level is estimated based on an average of the last five years of available data on the distribution of income (2007-2011). Since the total number of individuals over the age of 15 in 2013 is not available from Statistics Canada (2013a) CANSIM Table 202-0402, it was estimated using a five-year average ratio (2007-2011) with figures from Statistics Canada (2013b) CANSIM Table 051-0001.

The \$185.1 billion figure illustrates the magnitude of a reform that replaces Canada's large and complex income support system with a single guaranteed annual income program. Such a reform would involve governments at all levels, including many of Canada's over 3,600 local governments (Muniscope, 2014). Together, Canadian governments collectively spend 22.0 percent of program expenditures directly on cash and in-kind transfers for social benefits (Statistics Canada, 2014b; calculations by authors).¹⁹ In other words, introducing a GAI would mean fundamentally reforming approximately a quarter of total government activity in Canada, as measured by total program spending.

Summary

A guaranteed annual income is typically defined as a single federal program that replaces the existing and much more complicated income support system operated by all levels of government. It is also understood to be a cash transfer without stringent eligibility requirements or conditions. Our estimates suggest that the existing income support system has a price tag of approximately \$185.1 billion in total spending and tax measures by the federal, provincial, and local governments.

¹⁹ Social benefit spending, as defined by Statistics Canada, includes spending on transfers for income support and social security but excludes administrative costs. Social benefit spending is a more narrow measure than the collection of spending outlined in table 5 and thus does not include all programs or measures that comprise the income support system.

2. Assessing the arguments for a Guaranteed Annual Income

This section assesses several arguments put forth in favour of a guaranteed annual income. The central and indeed strongest conceptual case largely rests on the potential for administrative cost savings from replacing the existing income support system, which would theoretically cost less to administer due to the GAI's relative simplicity. A single program with no eligibility rules, beyond perhaps an income test, would, in theory, be vastly simpler to run and require fewer resources to be employed on administration (and thus a smaller government bureaucracy). This section also assesses other, weaker, arguments for a GAI, including the benefit of cash versus in-kind transfers, easier access to income support programs, and the potential to eliminate poverty.²⁰

Administrative simplicity

The most compelling argument by far for a guaranteed income program is administrative simplicity. It takes considerable resources for the different levels of government to administer the various income support programs in Canada. A system made up of a single program would theoretically be cheaper to administer for two key reasons. First, it could do away with administrative duplication that inevitably occurs in a multi-program, multi-government system. A single program would require fewer managers and front-line staff compared to a system with multiple programs operating at multiple levels of government.

Second, eliminating the various eligibility conditions for receiving government transfers would make a GAI relatively cheaper to operate. After all, fewer resources would be needed for monitoring and ensuring that recipients comply with the conditions of the program. However, eligibility conditions are

²⁰ Philosophical arguments are also made in favour of GAI including appeals to concepts of social justice or reparations for historical injustices (Young and Mulvale, 2009; Zwolinski, 2013), but this paper focuses strictly on economic arguments.

often designed to encourage people who are physically able to work to seek out job opportunities and not become dependent on government transfers. Indeed, there is a trade-off: eliminating work and other requirements may lead to administrative savings but also increase the risk of long-term dependency among able-bodied Canadians.

For illustrative purposes, [table 7](#) displays estimated administrative costs in 2013 for the three largest federally operated transfer programs: Old Age Security, Canada Pension Plan, and Employment Insurance. According to estimates by the Office of the Superintendent of Financial Institutions, administrative costs as a percentage of total annual program costs are 0.3 percent for Old Age Security, 2.4 percent for the Canada Pension Plan, and 8.1 percent for Employment Insurance²¹ (OSFI-OCA, 2010; OSFI-OCA, 2011; OSFI-OCA, 2013; calculations by authors).²² These differences in relative administrative costs reflect, to some extent, the degree of complexity of the programs. For instance, the rules for qualifying and receiving Old Age Security are clearer in comparison to the rules for Employment Insurance. Employment Insurance requires that recipients report on their job search efforts and the eligibility and benefit rules differ across regions. Much of the administration cost of Employment Insurance is driven by the need to establish eligibility and to monitor recipients to ensure that they conform to the program's rules. There is no comparable requirement attached to Old Age Security; the benefits are the same regardless of where recipients live. Another example of a program with relatively simple eligibility rules is the Universal Child Care Benefit, which, as mentioned earlier, is a cash transfer to parents with children under the age of six. The Canada Revenue Agency (CRA) estimates that the administrative costs of UCCB were \$17.2 million in 2008/09, or 0.7 percent of total spending (Canada, Employment and Social Development Canada, 2011). Although the CRA estimate is not directly comparable to the estimates in [table 7](#), it reinforces the point that programs with simpler eligibility rules tend to cost less to operate. In principle, the rules for a guaranteed annual income would also be relatively simple, making the program less costly for the government to administer.

21. Figures for Employment Insurance include related secondary programs such as maternity leave. Employment Insurance administration costs include debt that has been written off, repayments to EI, penalties to EI, and interest paid to EI.

22. The estimated administrative costs for all three programs come from the Office of the Superintendent of Financial Institutions and likely understate the cost of operating these programs. For instance, a study led by Statistics Canada's former Chief Economic Analyst calculated the full cost of administering the Canada Pension Plan to be \$2.0 billion in 2012/13 (Cross and Emes, 2014).

Table 7**Administrative costs of the three largest federal income support programs, 2013**

	Administrative costs (\$ millions)	Total annual program costs (\$ millions)	Administrative costs / total annual program costs
Old Age Security	151	43,719	0.3%
Canada Pension Plan	917	38,255	2.4%
Employment Insurance	1,555	19,305	8.1%

Sources: OSFI-OCA, 2010; OSFI-OCA, 2011; OSFI-OCA, 2013; calculations by authors.

Notes: Figures for Employment Insurance include sub-programs such as maternity leave. EI administration costs include debt that has been written off and is net of repayments, penalties, and interest paid to EI.

The administrative costs for the Canada Pension Plan include the administrative cost of the CPP Investment Board.

The estimated total and administrative costs for all three programs come from the Office of the Superintendent of Financial Institutions. The administrative costs are likely understated. For instance, Cross and Emes (2014) calculated the full cost of administering the Canada Pension Plan to be \$2.0 billion in 2012/13.

Income support programs at the provincial level can be even more costly to administer, which reinforces the potential for savings. Welfare is a provincial responsibility and a key part of social services. The cost of administering welfare is often high owing in part to conditions and eligibility requirements that must be monitored and enforced. As a result, a large portion of total spending on social services is spent on operating costs and other items like government employee compensation—not directly on transfers to social service recipients.

The Public Accounts of the British Columbia and Manitoba governments contain information that allows us to delineate the amount of social services spending that does not go to direct transfers. In British Columbia, social services spending totalled \$4.0 billion in 2012/13, of which \$2.8 billion went to direct transfers (British Columbia, Ministry of Finance, 2013; calculations by authors). Put differently, \$1.3 billion or 31.5 percent of total social services spending went to spending on things other than direct transfers to recipients.²³

23. In British Columbia, non-transfer social services spending includes operating costs, salaries and benefits, debt services, amortization, and other spending (British Columbia, Ministry of Finance, 2013: 94).

In Manitoba, non-transfer spending totaled \$274 million in 2012/13, which is proportionally less at 24.4 percent²⁴ (Manitoba, Ministry of Finance, 2013; calculations by authors).²⁵

All of this suggests that the costs for administering social programs are not trivial. Proponents of a single guaranteed annual income program assert that the resulting simplicity would minimize such costs because the lack of conditions or stringent eligibility requirements would naturally require fewer government workers to operate. And by virtue of being a single program rather than multiple programs, administrative redundancies in the income support system could be eliminated or greatly reduced.

The current system employs an army of bureaucrats to operate the litany of income support programs and to design policy changes. For instance, Employment and Social Development Canada, the department responsible for the bulk of the federal government's income support system, employs over 20,000 full-time equivalent workers (Canada, Employment and Social Development Canada, 2013). A GAI would theoretically require fewer front-line workers, a reduced policy infrastructure, a smaller human resources establishment to manage employee benefits, and less staff more generally to oversee program delivery and implementation. With a GAI that replaces the current income support system, there is potential to substantially reduce the number of bureaucrats in other federal departments and at the provincial and local government levels.

The potential savings would theoretically be substantial given how costly it is to compensate the large number of government employees under the current system. For illustrative purpose, in 2013 all levels of government collectively spent \$237.3 billion on employee compensation, or 34.1 percent of total consolidated program spending (Statistics Canada, 2014b; calculations by authors). In the same year, just over one million people were employed in public administration at all levels of government (Statistics Canada, 2014c).²⁶

²⁴. In Manitoba, non-transfer social services spending includes personnel services (employee compensation), transportation, communication, supplies and services, amortization, minor capital, debt servicing, and other operating spending (Manitoba, Ministry of Finance, 2013: 113).

²⁵. In table 3, the cost of social housing is included with the cost of social services. However, due to the way the Public Accounts are presented, the calculation of non-transfer spending as a percentage of total spending on social services does not include social housing and accounting adjustments which, among other things, strip out transactions between government sectors.

²⁶. "Public administration" is defined by the North American Industry Classification System. It does not include all public sector employees but does include anyone "engaged in activities of a governmental nature" (Statistics Canada, 2012). In other words, public sector workers who are engaged in activities that have private sector equivalents are not included. For more information, see Statistics Canada (2012).

Even a relatively small reduction of government workers would have a meaningful impact on spending due to the wage premium enjoyed by government employees.²⁷ A guaranteed annual income, through a reduction in the number of government workers, makes it possible to reduce unproductive program costs—that is, costs that go to operating the income support system and not to eligible Canadians.

Greater autonomy and flexibility for recipients

A less compelling argument for a GAI stems from the idea that a cash transfer without any restrictions would provide recipients with greater flexibility than the current system, which involves in-kind benefits. Flexibility can be invaluable because different households have different needs and priorities (Miron, 2011). Households may also have different strategies for improving their situation and the flexibility of a cash transfer allows low income households to pursue their own strategy. However, a pure cash transfer may not allow recipients to meet all their needs and in some cases (e.g., people with drug/alcohol addiction and mental health issues) the cash transfer may actually be detrimental. Thus, on balance, this argument is less compelling than the clearer cut benefit of administrative simplicity.

Turning to the research, there is some evidence that a cash-based system like a GAI improves outcomes for recipients. A recent study by Emery et al. (2013) compares the self-reported physical health, mental health, and food security²⁸ outcomes for low income elderly individuals with incomes of \$20,000 or less not yet receiving full old age benefits²⁹ (ages 60 to 64) to low income individuals qualifying for full old age benefits (ages 65 to 69). The study finds that moving from the social assistance programs to the old age benefits (a cash transfer) reduces the instances of food insecurity by half. It also finds that, after qualifying for old age benefits, the share of people

27. Research shows government workers in Canada enjoy an average 12 percent wage premium over comparable private sector workers (Palacios and Clemens, 2013). This is on top of more generous pensions, an earlier average age of retirement, and much greater job security.

28. Emery et al. (2013) use the definition of food security provided by the United States Department of Agriculture, Food, and Nutrition Service: “Access by all people at all times to enough food for an active, healthy life. Food security includes at a minimum: (1) the ready availability of nutritionally adequate and safe foods, and (2) an assured ability to acquire acceptable foods in socially acceptable ways (e.g., without resorting to emergency food supplies, scavenging, stealing, or other coping strategies)” (United States of America, Department of Agriculture, 2000).

29. Emery et al. (2013) define old age benefits as consisting of the Canada/Quebec Pension Plan, Old Age Security, and Guaranteed Income Supplement.

self-reporting poor/fair physical and mental health declines by approximately 20.9 percent and 39.3 percent, respectively. Extrapolating from these results, the authors conclude that a cash-based GAI would have similar outcomes due to program features that resemble Old Age Security and the Guaranteed Income Supplement.

A study by Forget (2011) examines the health and education outcomes for recipients receiving a cash transfer during the Canadian experiment with a guaranteed annual income in Dauphin, Manitoba during the 1970s.³⁰ The primary purposes of the program (MINCOME) were to investigate the labour supply effect and administrative issues related to a GAI. The experiment ran between 1974 and 1979 but data were only collected for the first two years (benefits were paid out until 1978). Forget (2011) relies on alternate data sources to measure the impact of a guaranteed income on Dauphin recipients in terms of school enrolment and hospital visits. She finds that grade 12 enrolment increased and hospitalization decreased 8.5 percent relative to the control group (those not enrolled in the MINCOME program).³¹ Generalizing from these results is difficult because the conditions and environment in modern Canada are not the same as rural Manitoba in the mid-1970s. However, the results seem to suggest that a guaranteed income cash transfer could have a wide range of benefits.³²

Other researchers have expressed concern that a pure cash based system of social assistance may not provide recipients with all the help they need. For instance, Kesselman (2013) argues that cash transfers crowd out in-kind transfers such as social housing or supportive services for mental health. This is problematic if recipients of a cash transfer would be unable to purchase equivalent services in the market. However, some in-kind services offered by the government could plausibly be offered by either for-profit or non-profit organizations.

In addition, a cash transfer with no restrictions may exacerbate problems for people who are suffering from drug and/alcohol addiction. By providing addicts with the financial means to feed their addiction, a guaranteed income could make them worse off in the long run.³³ And for those with

30. MINCOME also included recipients in Winnipeg, Manitoba, but the results from that city were not included in Forget, 2011.

31. A possible explanation for why MINCOME increased grade 12 enrollment is that the cash transfer enabled teenagers from low income families to stay in school rather than drop-out to either support themselves or help support their family.

32. Other research not specifically considering a guaranteed income also finds positive long-term outcomes from cash transfers. For a recent example, see Aizer et al. (2014).

33. The influence of cash transfers on a recipient's consumption habits is an important empirical question, particularly in the case of drug use or what is sometimes referred to as "temptation goods." A recent World Bank paper reviewed the evidence regarding how conditional and unconditional cash transfers affect the consumption of alcohol and

mental disease, it is not clear that a social assistance system purely based on cash transfers would provide the kind of help they need.

These points raise legitimate concerns about replacing the income support system (including all in-kind transfers) with a single cash transfer. One obvious solution is to maintain some in-kind transfers and do away with others. The disadvantage, however, is that this approach diminishes the administrative savings that a guaranteed income offer, which is the primary argument for reform. As more of the current system is preserved, the potential administrative savings shrink.

Easier access to income support programs

The complexity of the existing income support system can make it difficult for eligible recipients to navigate. At the federal level alone, there are at least 11 special spending programs and tax expenditures that directly subsidize households with children. It can be a daunting task for anyone to sort through these different programs and tax measures to understand how they differ and to figure out which they qualify for. As a result, some argue that the simplicity of a guaranteed income would make it much easier for people to apply for and comply with. While this may be true, there is a balance to strike between compliance ease for those in need of assistance and encouraging dependency on government transfers by those who are able to work.

First consider how accessing the existing income support system can be onerous. Potential recipients must demonstrate eligibility, and this may involve filling out applications and providing documentation of relevant information such as health records and pay stubs (Canada, Employment and Social Development Canada, 2010). Recipients may also have to meet with a government representative to discuss their financial and other personal circumstances. They may then be required to keep in touch with government officials

tobacco in developing countries (Evans and Popova, 2014). The review found that most studies do not show a statistically significant increase in alcohol and tobacco consumption due to cash transfers. Even if this conclusion can be robustly applied to developed countries, it would not completely put to rest the concern that unconditional cash transfers may, in the long run, be harmful to addicts. The increase in drug consumption in the overall population of recipients could be negligible or non-existent but at the same time significant and detrimental for the subpopulation of addicts. Notably, the bottom 20 percent of Canadian income earners in 2012 spent 2.6 percent of their annual household expenditure on tobacco and alcohol compared to 1.7 percent for the overall Canadian average (Statistics Canada, 2014d).

to continuously inform them of any changes in their circumstances (Canada, Employment and Social Development Canada, 2010).³⁴

Complying with this cumbersome process can be difficult and costly (in terms of time), especially for someone who is unhealthy or has few resources (Currie, 2004). The effect of compliance costs is seen in the low take-up of benefits by eligible individuals and families when the cost of compliance is high relative to the level of benefit (Currie, 2004).³⁵ This means that individuals and families who qualify for income assistance may not receive it due to the complexity of the system.

Although there are benefits to reducing compliance costs, risks come from making it too easy to access the income support system. Requiring recipients to demonstrate eligibility helps to discourage unnecessary use and dependency, particularly in cases where the recipient is able to work. A balance must be struck between making access difficult enough to discourage misuse and easy enough to ensure that people in need of benefits receive them. A guaranteed income would likely tilt too heavily towards making access too easy and thus would do a poor job of striking that balance. The risk, then, is that a GAI encourages able-bodied recipients to become dependent on government transfers.

Canada's experience with welfare reforms in 1990s and early 2000s is instructive in this regard. The reforms demonstrate that more stringent eligibility requirements, less generous benefit levels, and work-focused social policies help to reduce the number of people dependent on social assistance. Notably, a guaranteed annual income moves away from this approach.

In 1996, reforms at the federal level gave the provinces greater flexibility for setting social assistance policy (Gabel et al., 2004). Provincial governments were then able to experiment and find different policy approaches that helped their respective populations move off social assistance. For instance, in 2002, the BC government limited the amount of time an employable recipient of social assistance could receive benefits to a cumulative 24 months within a 60 month period (Schafer and Clemens, 2002). Earlier, in 1998, the Ontario

³⁴. Canadians can also access income support in the form of refundable and non-refundable tax credits when they submit a tax return. But complying with the personal income tax system can be costly in terms of time and resources, and these costs are disproportionately higher for lower income Canadians (Vaillancourt et al., 2013). In addition, research finds that lower income Canadians are less likely to claim non-refundable tax credits (Fisher et al., 2013; Neill, 2013).

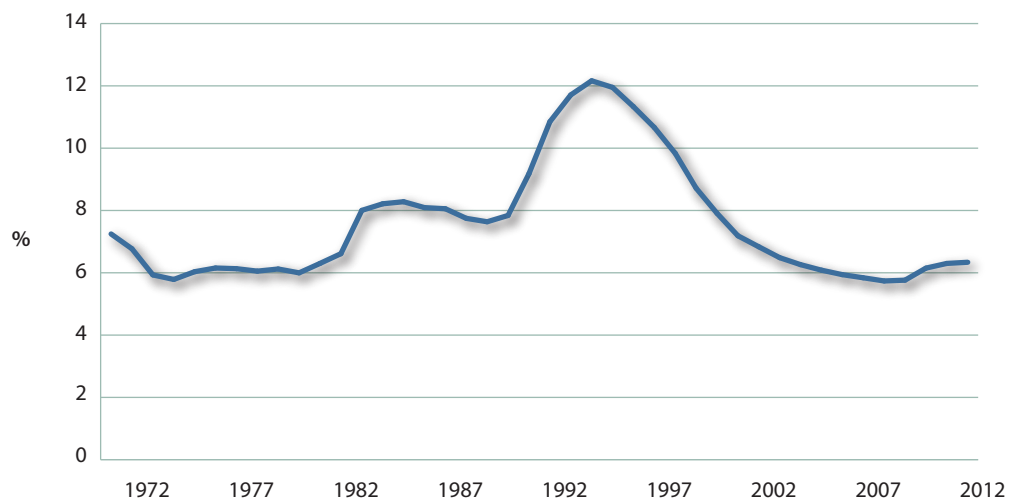
³⁵. Research has found lower participation rates in programs with stringent requirements (such as requiring frequent visits to government offices) and with low benefit levels relative to the cost of adhering to requirements (Currie, 2004). In addition, with layers of overlapping programs it is more difficult to navigate through the bureaucracy, which is why participation rates for eligible potential recipients tend to decline as the number of programs increases (Moffitt, 2003).

government made participation in job-search assistance or work experience programs mandatory for employable recipients (Schafer et al., 2001). Other reforms were made across Canada including administrative changes and rules-tightening aimed at reducing fraud and encouraging recipients to leave social assistance (Schafer et al., 2001).

Partly as a result of these reforms, the proportion of Canadians on social assistance plunged dramatically. **Figure 1** displays the number of social assistance beneficiaries in Canada relative to the population under age 65 from 1971 to 2012. Following a considerable ramp up in the rate of social assistance beneficiaries, which peaked at 12.2 percent in 1994, the rate started a precipitous decline in 1996. The rate bottomed out at 5.7 percent in 2008 and since increased to 6.3 percent in 2012 (still about half the rate in 1994). Despite a growing Canadian population, the number of social assistance beneficiaries fell from approximately 3.1 million in 1994 to 1.9 million in 2012.

Figure 1

Proportion of Canadian population on social assistance, 1971–2012



Sources: Kneebone and White, 2014; Statistics Canada, 2013b.

Notes: The population data exclude Canadians over age 65 and those living in the territories.

Kneebone and White (2014) provide data on the number of social assistance beneficiaries starting in 1969. The figure starts in 1971 because the readily available population data from Statistics Canada begins in that year. Data for Prince Edward Island from 2009 to 2012 are not provided by Kneebone and White (2014).

Various factors contributed to the decline in the rate of social assistance beneficiaries.³⁶ However, a study by Kneebone and White (2009) finds that social assistance reforms are by far the largest cause of the decline in BC, Alberta, and Ontario. Kneebone and White (2009) attribute 64.6 percent of the decline in BC from 1994 to 2003 to social assistance reforms. For Alberta (1992–2003) and Ontario (1993–2003), they attribute 49.4 percent and 47.1 percent of the reduction, respectively, to social assistance reforms.³⁷

The American experience with social assistance reform also shows that tighter eligibility rules can play a role in reducing dependency. In the 1990s, the United States underwent a set of social assistance reforms, which, among other things, emphasized work requirements and often established time limits on receiving benefits (Moffitt, 2008). From 1996 to 2009, the number of Americans on social assistance fell by 67 percent, from 12.6 million to 4.2 million (Tanner and DeHaven, 2010).³⁸ A review of the literature on the American experience finds that social assistance reforms were a major driver in the reduction of social assistance cases, although there is disagreement on the exact magnitude of the effect (Moffitt, 2008). The review also finds that 60 percent to 70 percent of women leaving social assistance found part-time or full-time employment and the overall family income of single-mother families increased while poverty declined.

The lesson from the Canadian and American experience is that more stringent requirements (broadly defined) can reduce dependency and help transition recipients off social assistance. Specifically, the evidence suggests that the foundation for successful welfare reform consists of six main policies: benefit lifetime limits, proactive diversion programs, work requirements and sanctions for non-compliance, employment focus, work incentives, and innovative approaches to program support and delivery (Gabel et al., 2004). The challenge for a guaranteed annual income is that a program with few or no restrictions may have the opposite effect and over the long term encourage chronic dependency.

³⁶. For instance, improving economic conditions facilitated the process by which beneficiaries found employment.

³⁷. Kneebone and White (2009) distinguish between reforms that changed the administration and conditions of social assistance from reforms that reduced the level of benefits. They find that the second largest cause of the decline in the rate of social assistance beneficiaries in BC and Ontario are reductions in the level of benefits.

³⁸. The decline in social assistance cases in the United States actually began in 1994, partly due to state level social assistance reforms that were already underway (Moffitt, 2008).

Eliminating poverty

A guaranteed annual income is often presented as the ultimate solution to poverty. For instance, Hugh Segal, former Conservative Senator and long-time advocate for a guaranteed income, has made this claim using such lofty titles for his speeches and articles as “Building Economic Strength by Eliminating Poverty”³⁹ and “A Real Fix for Poverty.”⁴⁰ Academic supporters Derek Hum and Wayne Simpson (2005) have used similar framing, entitling one article “The Cost of Eliminating Poverty in Canada.”⁴¹ The claim that a guaranteed income can eliminate poverty relies on the assumption that poverty can be solved solely by providing the poor with more income.⁴² Former Senator Segal argues that health care and education programs can only deal with the results and symptoms of poverty while a guaranteed income would tackle the problem at its root (Segal, 2008). In reality, however, poverty is a much more complicated issue than simply a lack of income and does not lend itself easily to a simple “one size fits all” type of solution.

For starters, poverty is defined differently by different people. There are two broad definitions: relative poverty, which focuses on differences in income, describes those with relatively low income as poor. Absolute poverty, however, is about genuine deprivation or the inability to afford basic goods and services.⁴³ Importantly, relative poverty by definition can never actually be eliminated because there will always be people with relatively less income than others.

That said, for most Canadians being in low income is a temporary situation—not a lifelong condition. According to a recent Statistics Canada study, one third of Canadians who fall under any one of Statistics Canada’s low income thresholds are above the threshold the following year (Murphy et al., 2012).⁴⁴ Of the remaining two-thirds, the vast majority do not remain

39. This is the title of a speech addressing the Niagara Community Foundation on November 21st 2013. The text of the speech can be found on former Senator Segal’s website: <<http://www.hughsegal.ca/en/p103834/>>.

40. This is the title of an article that appeared in the National Post; it can be found on former Senator Segal’s website: <<http://www.hughsegal.ca/en/p103834/>>.

41. The full title is “The Cost of Eliminating Poverty in Canada: Basic Income with an Income Test Twist.”

42. A GAI provides a guaranteed income but an important distinction exists between guaranteeing a pre-set level of income and ensuring some a minimum standard of living. Some people may not spend the cash transfer for the purpose of achieving a minimum standard of living.

43. For a more complete discussion of absolute versus relative measures of poverty, see Sarlo (2013).

44. Statistics Canada’s three measures of low income are: Market Basket Measure, Low Income Cut-off, and Low Income Measure.

under the threshold for six or more years. The percentage of Canadians who are in low income, and remain there for six or more years, ranges from 1.4 percent to 3.5 percent, depending on the low income threshold used (Murphy et al., 2012). The data in **figure 2** are for the period 2002 to 2007. The average time frame for being in low income is 2.4 years.⁴⁵ Being in persistent poverty, as defined by measures of low income, is clearly not a widespread problem in Canada.

Figure 2

Proportion of low income Canadians who remain in low income for six years (2002 to 2007), by low income threshold



Sources: Murphy et al, 2012; calculations by authors.

More generally, research on the income mobility of Canadians shows that those who are initially in the bottom 20 percent of earners overwhelmingly move up the income ladder over time. A recent study by Lammam et al. (2012) finds that after 10 years (1990–2000), 83 percent of those initially in the bottom quintile moved up to a higher income group. After 19 years (1990–2009), 87 percent moved up, with 21 percent initially in the bottom quintile eventually reaching the highest income group (the top 20 percent). If poverty is conceived as having relatively low income, poverty in Canada is again mostly a transitory issue affecting Canadians when they are young, without formal education, and lacking work and life experience.

The real concern is regarding the few who find themselves to be persistently below measures of low income. What makes these individuals and families different from those who successfully rise above low income thresholds?

⁴⁵ The averages for each measure of low income are: 2.3 years under Market Basket Measure, 2.4 years under Low Income Cut-off, and 2.5 years under Low Income Measure.

In their study for Statistics Canada, Murphy et al. (2012) find that people who are persistently in low income tend to be lone parents, unattached non-elderly persons (aged 45 to 64 and living alone), and, to a lesser extent, people with some form of a physical or mental disability. Other Statistics Canada research finds that those who did not graduate high school and recent immigrants are also more likely to experience persistent low income (Ren and Xu, 2011). This does not mean that everyone with those characteristics is destined for chronic low income, only that the probability is higher.

A guaranteed annual income may help boost the living standard of some of these individuals in the short term, but it would not necessarily address the underlying drivers that cause them to experience persistent low income in the first place. In fact, an unconditional cash transfer could make matters worse for some (for instance, by giving those who suffer from addiction increased resources to feed their addiction). And there is a risk that the program blunts the incentive for people to be income mobile by effectively paying people who can work, not to work. For some low income individuals, institutional barriers may prevent them from improving their situation, and this is something a GAI cannot solve. For instance, First Nations living on reserve remain impoverished despite decades of transfers from federal and provincial governments (Milke, 2013). A key barrier to escaping low income is relatively weak property rights and rule of law on many reserves (Flanagan and Beauregard, 2013). The pathologies of poverty are complex and depend on individual circumstances, so the solutions are likely to be much more nuanced than simply a guaranteed income. Since poverty tends to be concentrated among specific groups with diverse needs, an alternative option would employ targeted strategies rather than a universal program like a GAI.

It is nonetheless important to point out that the persistence of low income has declined since Canada's social assistance reforms (completed by the early 2000s). From 1993 to 1998, the average length of time spent below the Low Income Cut-off, a measure of low income, was 4.3 years for unattached non-elderly persons and 4.5 years for lone parents (Murphy et al., 2012).⁴⁶ For the period of 2002 to 2007, the average time spent below the Low Income Cut-off fell to 2.8 years for unattached non-elderly persons and 3.6 years for lone-parents. And the evidence shows that family income typically increases after Canadians leave social assistance (Frenette and Picot, 2003), meaning that getting off social assistance is often a path to higher income.

By multiple measures, the incidence of poverty has also fallen over time (and this has occurred without a GAI program).⁴⁷ The rate of people living

46. Section 3 discusses and defines Statistics Canada's Low Income Cut-off (LICO).

47. For an accessible account of the reduction in poverty over time, see <<http://fullcomment.nationalpost.com/2013/07/22/andrew-coyne-fewer-people-sit-below-the-poverty-line-now-than-ever-before-why-are-we-not-talking-about-it/>>.

below Statistics Canada's Low Income Cut-off decreased from the 1996 height of almost 16 percent to 8.8 percent in 2011 (Murphy et al., 2012; Statistics Canada, 2013c).⁴⁸ Poverty is also declining by absolute measures. In a recent study, Sarlo (2013) finds that the incidence of absolute poverty declined during the 2000s. This is not to say that poverty is not a problem in Canada—only that it has actually fallen over time. Incidentally, the recent decline in poverty took place after social assistance reforms aimed at encouraging employment and reducing dependency.

Summary

The potential for administrative savings is a powerful argument for a guaranteed annual income. Indeed, the reform's appeal largely rests on this argument. But the other arguments assessed in this section are less compelling. While an unconditional cash transfer would provide recipients with greater autonomy and flexibility than the current system, which involves in-kind benefits, the cash transfer alone may not allow recipients to meet all their needs, and in some cases (people with drug/alcohol addiction and mental health issues) the cash transfer may actually be detrimental. There is also the concern that easier (or unconditional) access to income support may lead to increased long-term dependency on government transfers by people who are otherwise capable of working. Finally, it is an oversimplification of a complex issue to claim that a guaranteed income would eliminate poverty.

⁴⁸ The Low Income Measure (LIM) is the only commonly used measure of low income that shows a slight increase over the past decade (Murphy et al., 2012; Sarlo, 2013). However, LIM is a relative measure that measures the distribution of income rather than the deprivation of basic necessities (see Sarlo, 2013).

3. The challenge of designing a Guaranteed Annual Income Program

A guaranteed annual income has conceptual appeal, especially the potential for administrative savings. However, real challenges surface when we move from the conceptual notion of a GAI to practical design and implementation. This section considers the challenge of designing a GAI program in light of the fact that there is no consensus on even the most basic features it would take on. The next section unpacks the arguably insurmountable challenge of implementing a GAI in Canada.

Types of programs

There are three broad types of guaranteed income program designs: the negative income tax, universal demogrant, and income top-up.⁴⁹ Two key elements of program design are the level of the basic benefit and the reduction rate; the latter indirectly determines the type of guaranteed income program.⁵⁰ The basic benefit is the pre-set amount of income being guaranteed. In other words, it is the size of the cash transfer if the recipient has zero earned income. The reduction rate is the rate at which the cash transfer is clawed back as the recipient's earned income increases. The reduction rate for a universal demogrant is zero and for the income top-up it is 100 percent. The reduction

⁴⁹. The terms negative income tax and universal demogrant are primarily taken from Canada, Employment and Social Development Canada (1994) and Battle (2008) but other terms are used to describe these two types of policy. For example, Hum and Simpson (2005) refer to a basic income (universal demogrant) and a guaranteed income (negative income tax).

⁵⁰. There are a number of other important design elements such as the frequency in which cash transfers are paid out. Cash could be transferred on a weekly, monthly, quarterly, or annual basis. The timing of the transfer could have important consequences for how the program operates and the outcomes it produces. For instance, there is a greater risk that an annual lump sum cash transfer would be mismanaged, leaving recipients in need of further assistance later in the year.

rate for a negative income tax can be any percentage above zero or below 100 percent. Selecting the basic benefit and reduction rate involves a balancing act between providing a benefit that helps to achieve a desired income level and maintaining a reasonable overall program cost. There is also the important consideration of how program design affects work incentives, which is discussed in a later section.

Negative income tax

The most commonly discussed type of GAI in Canada is the negative income tax,⁵¹ which is the version Milton Friedman supported in his 1962 book *Capitalism and Freedom*. Despite its name, it is not necessary for a negative income tax to be administered through the tax system—though that is what Friedman and others have suggested, due to lower administration costs compared to operating the program as a government spending initiative. Like other versions of a GAI, there is a basic benefit or an amount of income guaranteed.

A defining feature of a negative income tax is that the cash transfer is reduced by a set percentage for every dollar of income earned by the recipient. If the reduction rate is 50 percent, as Friedman initially proposed (Friedman, 1962), then the cash transfer would be reduced 50 cents for every dollar earned. If the recipient has no earned income, then the cash transfer they receive would be equal to the basic benefit. The formula for calculating the cash transfer under a negative income tax is as follows:

$$\text{Cash Transfer} = \text{Basic Benefit} - (\text{Earned Income} \times \text{Reduction Rate})$$

In Canada, the reduction rate in prominent proposals for a negative income tax has ranged from 20 percent to 70 percent (Croll Report, 1971; Macdonald Commission, 1985). The rationale for including a reduction rate is to restrain program costs and to ensure that the benefits are primarily targeted at individuals and families with lower income. There are, however, important trade-offs with selecting a reduction rate. A higher rate translates into lower program costs but imposes a larger disincentive effect on

51. Historically, the negative income tax has been the most prominent type of GAI to be seriously debated in Canada. The two most noteworthy Canadian proposals for a guaranteed income were both negative income taxes (Croll Report, 1971; Macdonald Commission, 1985). Furthermore, Canada's experiment with a GAI in the 1970s, known as MINCOME, was also a negative income tax. Although other types of guaranteed income programs are sometimes discussed, most of the discussion in Canada still revolves around a negative income tax. For example, in a recent "Twitter chat" hosted by the Basic Income Pilot, with participants from academia the general public, the negative income tax dominated the discussion (see <http://www.basicincomepilot.ca/twitter_chat>).

a recipient's motivation to work, because he or she keeps less of the cash transfer as earned income increases. On the other hand, a lower reduction rate results in higher program costs because it gives larger cash transfers to more people—in particular, people higher up the income ladder that are not in need of assistance.

Universal demogrant

Another form of guaranteed income is the universal demogrant, which is basically a negative income tax without a reduction rate. Under this program design, every citizen receives the basic benefit as a cash transfer in full, regardless of their income. The cash transfer under a universal demogrant simply equals the basic benefit:

$$\text{Cash Transfer} = \text{Basic Benefit}$$

A major criticism of the universal demogrant is that the program's cost would be much higher than a negative income tax (Canada, Employment and Social Development Canada, 1994; Hum and Simpson, 2005). In addition, unlike a negative income tax with a reduction rate, both low and high income earners would receive exactly the same cash transfer. A universal demogrant would therefore provide a cash transfer to some people who do not “need” it. However, if the cash transfer is treated as taxable income under the current tax system, then a larger percentage of the transfer would be taxed back from higher income taxpayers due to Canada's progressive income tax system.⁵²

Income top-up

Finally, a guaranteed annual income could take the form of an income top-up program. That is, a basic benefit would be established and any individual or household that falls below that target is “topped up” with a cash transfer. Individuals or households above the basic benefit would not receive any transfers. The formula for calculating the cash transfer under a top-up is as follows:

$$\text{Cash Transfer} = \text{Basic Benefit} - \text{Earned Income}^{53}$$

⁵². It is important to note that a guaranteed income program could be a hybrid of the negative income tax and the universal demogrant, whereby a reduction rate exists but the recipient can earn an income up to a certain threshold before transfers are reduced. For instance, Old Age Security, which provides a cash transfer to the elderly, has a reduction rate of 15 percent with the reduction rate only applying to recipients with an income above \$70,954 (as of July 2014). Another important feature of Old Age Security is that it is not administered through the income tax system.

⁵³. This formula applies to earned income up to the basic benefit only. There is no cash transfer when earned income exceeds the basic benefit.

The range of possible program designs allows the idea of a guaranteed annual income to attract support from individuals and organizations with diverse perspectives and philosophies. There would be, however, less agreement among proponents on the particulars of the program's design. It would be difficult, if not impossible, to accommodate the various perspectives and priorities in one design (Canada, Employment and Social Development Canada, 1994; Battle, 2008). In this sense, the ambiguity of the GAI design creates an illusion of crossover appeal.⁵⁴

The basic benefit

A crucial component of any guaranteed annual income program is the basic benefit, which is the dollar amount provided by the program before any reduction. In other words, it is the level of income guaranteed. Conceptually, the basic benefit should be enough to support the basic needs of recipients while at the same time not being so generous as to strongly discourage the motivation to work.

But setting the amount of the basic benefit is a challenge in practice due to competing interests, with some individuals and groups vying for a higher amount and others for a lower amount. Canada also does not have an official poverty line, which adds to the practical challenge.

Although there is no official measure of poverty, Statistics Canada reports on three different measures of low income: Low Income Measure,⁵⁵

⁵⁴. Milton Friedman (1968, September 16) made this precise observation: "...the appearance of growing agreement—of support for a [GAI] by the right and the left, by businessmen and professors, by Republicans and Democrats—is highly misleading. In large part, it reflects the use of the same term to describe very different plans."

⁵⁵. The Low Income Measure is calculated by first finding the median household income (household income is adjusted to reflect differences in the needs of households of different sizes). The Low Income Measure for a single person household is then set at 50 percent of the median income. The Low Income Measure for households of other sizes is found by multiplying the result for a single person household by the square root of the number of people in the household. For instance, the Low Income Measure for a two person household would equal the square root of two multiplied by the Low Income Measure for a single person household. For more details about how the Low Income Measure is calculated see Statistics Canada (2013e). This methodology means that as the aggregate household income increases so will the Low Income Measure threshold, regardless of the actual living conditions of those that fall below the Low Income Measure.

Low Income Cut-off,⁵⁶ and the Market Basket Measure.⁵⁷ In addition to these, an alternative measure is the Basic Needs Poverty Line, developed by Professor Christopher Sarlo of Nipissing University. The Basic Needs Poverty Line is the level of after-tax income needed to purchase a family's basic needs, which Sarlo (2008) defines as things "required for long term physical well-being."⁵⁸ This includes such items as food, shelter, clothing, and out-of-pocket health care costs.⁵⁹

All of these measures are used by analysts, government bodies, and pundits in discussions about poverty, even though the differences are significant. **Figure 3** displays the income thresholds (after-tax) in 2011 under each measure for a family of four and a family of one living in an urban Ontario community. The highest threshold for the family of four (Low Income Measure = \$39,860) is 56.4 percent greater than the lowest threshold (Basic Needs Poverty Line = \$25,492). For individuals (family of one), the Low Income Measure is \$19,930 and the Basic Needs Poverty Line is \$12,747. All else equal, a basic benefit based on the Low Income Measure would translate into a more costly program than one based on the Basic Needs Poverty Line.

56. Low Income Cut-off is calculated based on the percentage of income that an average Canadian family spends on necessities. The 1992 Family Expenditures Survey found that households of all sizes spent an average 43 percent of its after tax income on necessities. A household that spends 63 percent (20 percentage points more) of their income on necessities would fall below Low Income Cut-off (Statistics Canada, 2009). Similar to Low Income Measure, Low Income Cut-off is influenced by growth in aggregate income because as real incomes increase families spend a lower percentage on necessities thus driving LICO up the income scale.

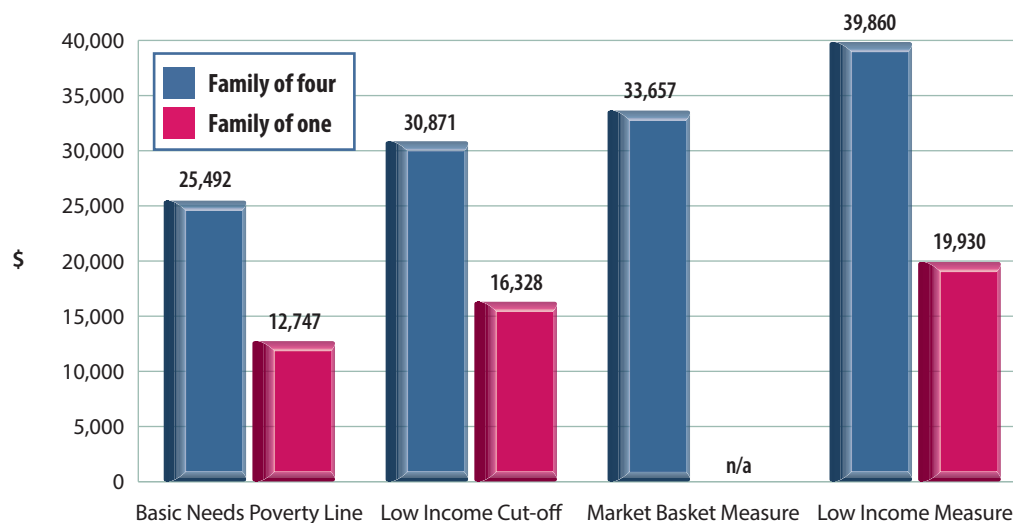
57. The Market Basket Measure is based on the cost of a set of market goods and services that could be purchased to support a modest standard of living for two adults (age 25–49) and two children (Statistics Canada, 2013f). Examples of the goods and services included are food, clothing, and transportation. These costs combine to create a threshold specific to geographical regions and any family whose disposable income falls below the threshold would be considered to be low income.

58. Currently, the combination of federal and provincial income support program provide most households (with no earned income) a large enough cash transfer that covers the Basic Needs Poverty Line. For instance, in 2010, a BC family consisting of a lone parent and one four year child received a combined cash transfer that achieved 95.3 percent of the Basic Needs Poverty Line from social assistance, Christmas Allowance, Canada Child Tax Benefit, Universal Child Tax Benefit, federal GST Credit, and provincial tax credits (Veldhuis et al., 2012). This excludes cash or in-kind transfers from other programs.

59. The following is a list of what is included in the calculation of the Basic Needs Poverty Line: "nutritious food purchases at grocery stores; rented accommodation, with the number of bedrooms appropriate to the family size and composition, and the quality at a standard considered 'decent' in Canadian society; new clothing purchased at a major Canadian department store as estimated by a well-known Montreal social agency; all the way down to laundry, phone service, and out-of-pocket health care" (Sarlo, 2013: 10–11).

Figure 3

Low income thresholds for a family of four and a family of one living in an urban Ontario community, 2011



Sources: Sarlo, 2013; Statistics Canada, 2013d; Statistics Canada 2013g; Statistics Canada 2013h; Statistics Canada 2013i; calculations by authors.

Notes: The calculations for Low Income Cut-off and Low Income Measure are presented on an after tax basis to be consistent with the Basic Needs Poverty Line.

The Basic Needs Poverty Line is presented here is for Canada; a threshold specific to Ontario is not readily available.

A more general threshold is not readily available for the Market Basket Measure or Low Income Cut-off.

The Market Basket Measure threshold for low income is not available for a family of one.

The size of the community is based on the census metropolitan area. Urban is defined as a population between 100,000 and 499,999 people.

In Sarlo (2013), the calculation for the Basic Needs Poverty Line is updated from previous studies using 2009 as the base year. The 2011 Basic Needs Poverty Line is estimated by adjusting the 2009 figure for inflation using the Consumer Price Index.

Importantly, the debate about these measures hinges on the two basic views of poverty. Recall that one is a relative conception, which focuses on relative differences in income; the other and arguably sounder view is an absolute conception, which considers the ability to afford basic goods and services. Advocates of the former would gravitate towards either the Low Income Measure or Low Income Cut-off, while supporters of the latter view of poverty would be more inclined towards using the Basic Needs Poverty Line. In other words, selecting which measure to form the benchmark for the basic benefit could be controversial and potentially divisive even among guaranteed income supporters.

Regardless of which measure is selected as a benchmark, the actual level of the basic benefit still has to be determined. But there are a number of ways that a benchmark can be used for setting the basic benefit. It could be set equal to the benchmark (say, the Basic Needs Poverty Line) or as some percentage of the benchmark. For instance, the MINCOME experiment with a guaranteed income in Manitoba during the 1970s included a basic benefit set at 60 percent of the Low Income Cut-off (Forget, 2011). Alternatively, the benchmarks can be used as a threshold for where the cash transfer is reduced to zero. Consider a GAI in the style of a negative income tax. If only recipients below the Low Income Cut-off are eligible, then the basic benefit could be set at 50 percent of the Low Income Cut-off with a 50 percent reduction rate. By simple arithmetic, that means that the cash transfer would be cut off once income reached the Low Income Cut-off.⁶⁰

Making matters more complex is whether the basic benefit should be different for people in different circumstances. For instance, should parents and parents with young children get a higher basic benefit? A supplementary paper to the 1994 discussion paper *Improving Social Security in Canada* produced by the federal government examined a guaranteed income that offered a basic benefit based on a set amount for each adult and a smaller amount for each child in the household. The amount for children was increased to the full adult amount if the child was the first born of a single parent (Canada, Employment and Social Development Canada, 1994). There is a further complication about whether the basic benefit should be provided on an individual or household basis. Put differently, should people receive cash transfers as individuals or as household units? In either case, the answer to that question raises a number of design issues such as distinguishing between adult household members who may be able to contribute to household income and children who likely cannot. On the other hand, a basic benefit for individuals must tackle design questions such as the age an individual qualifies for the transfer. Other considerations could include a higher basic benefit for people living in an area with a higher cost of living—all things equal, the same basic benefit is “worth” more in Windsor, Ontario than in Vancouver, BC. Or there may be a higher basic benefit for people who are less able to work, such as the severely disabled and the elderly. Multiple basic benefits, however, would complicate

60. There are still other ways to derive the basic benefit such as setting it at an amount that would be cost neutral after determining which existing programs will be replaced. The Macdonald Commission used this approach when it proposed a guaranteed annual income in 1985. Doing so ensures that, in the short term, the program would cost the same as the more complex system it replaced. Notably, with this approach, some recipients in the old system may experience a reduction in government transfers because they would share the same pool of funds with more people while others may experience an increase in transfers.

the program and thus detract from an important advantage of a guaranteed income: simplicity. Special benefits for particular individuals would also be more costly to administer since it requires identifying and monitoring who truly meets the eligibility criteria (like a work-limiting disability). There is more discussion of these practical concerns in Section 4.

The reduction rate

There are three key considerations that need to be balanced in selecting the reduction rate: (1) discouraging work effort, (2) the income threshold where cash transfers cease, and (3) program cost. Section 5 discusses the negative effect on work incentives in greater detail. For now, suffice it to say that a higher reduction rate would discourage recipients from working since the reduction rate reduces the reward to work by clawing back the basic benefit. For example, if a recipient of a guaranteed income with a reduction rate of 50 percent earns \$100 in employment income, then \$50 will be taken away from their cash transfer. That means the recipient actually increases their total income by only \$50, which diminishes the reward to their work effort.

With a higher reduction rate, the reward is even less. A 70 percent reduction rate would result in the recipient gaining only by \$30 for every \$100 earned. A lower reduction rate of 20 percent allows the recipient gain \$80 for every \$100 earned, which makes working more financially rewarding. However, a lower reduction rate also gives a cash transfer to more people because the basic benefit is phased out more slowly as income is earned.⁶¹ Providing a larger cash transfer to a greater share of the population increases the program's cost considerably.

Impact of design on program cost

An important consideration for both the basic benefit and the reduction rate is the impact on the cost of the GAI program. A high basic benefit and a low reduction rate would make the program more costly. The opposite effect holds with a low basic benefit and high reduction rate. Recent calculations

⁶¹. For illustrative purposes, consider a hypothetical guaranteed income with a basic benefit of \$10,000 per individual. A reduction rate of 70 percent would mean that benefits are cut off once income reaches \$14,286. With a reduction rate of 20 percent, the cut off would be \$50,000—three and a half times higher than with the 70 percent reduction rate. Furthermore, with a lower reduction rate, the size of the transfer received by each level of income would be larger. Under the 70 percent and 20 percent scenarios, an individual earning \$12,000 would receive a transfer of \$1,600 and \$7,600, respectively.

by Milligan (2014) produce a range of monetary costs attached to different designs of a national GAI program in Canada. For illustrative purposes, Professor Milligan estimated the cost of ten different versions of such a program, with two different basic benefits and a range of reduction rates from zero percent (effectively a universal demogrant) to 100 percent (effectively a top-up design). Five of his cost estimates are for a basic benefit equal to a household's Low Income Cut-Off (LICO) as calculated by Statistics Canada. The other five estimates use a more generous basic benefit of \$15,000 per adult.

The cost estimates based on 2010 data vary greatly from \$32.2 billion to \$328.8 billion ([table 8](#)). For perspective, in 2010, governments at all levels transferred \$138.1 billion in cash and in-kind social benefit (Statistics Canada, 2014b).⁶² This figure includes cash and in-kind social security benefits such as Employment Insurance, social assistance, and retirement programs but excludes non-refundable tax credits⁶³ and is therefore less comprehensive than the total of income support calculated in Section 1.

Professor Milligan's estimates help to illustrate major challenges in designing a guaranteed income program. For one thing, they clearly show that a higher basic benefit would increase costs. The impact of the reduction rate on cost is even more dramatic, which has implications for the program's effect on discouraging work. While a guaranteed income program with no reduction rate (universal demogrant) may have less of an adverse effect on work incentives than one with a reduction rate of 100 percent (top-up), the cost of the former program could be ten times the cost of the latter program.

Over the years, other researchers have estimated the program cost of a guaranteed annual income in Canada and those estimates also vary depending on the design of the program. Professors Hum and Simpson (2005) estimated

62. Indeed, compared to many static cost estimates, a guaranteed annual income could cost less than the existing income support system, particularly if it was a replacement, as opposed to an additional, program. This potential, however, depends greatly on the design of the program and the realistic possibility of implementing such a program in Canada, which we argue is not likely in a later section. In addition, in his 2006 book, *In Our Hands: A Plan to Replace the Welfare State*, Charles Murray of the American Enterprise Institute argues that comparing the cost between a guaranteed annual income and the existing income support system in one year is not sufficient. If the cost of one system grows faster than the other, then the faster growing system could be more costly in the long run. Murray argues that his proposed universal demogrant would grow more slowly than the system that existed in the United States at the time and would thus be less costly in the long run despite being more costly in the short run (Murray, 2006).

63. A non-refundable tax credit is a tax expenditure that allows taxfilers with taxable income to reduce their tax liability, whereas a refundable tax credit is a cash transfer from government through the income tax system which can be received even if the taxfiler has no taxable income.

Table 8**Cost estimates for a guaranteed annual income, 2010 (\$ billions)**

Basic benefit	Reduction rate				
	0%	25%	50%	75%	100%
GAI = LICO threshold for families	313.8	136.9	66.3	42.9	32.2
GAI = \$15,000 per adult	328.8	157.5	97.7	74.7	62.5

Source: Milligan, 2014.

Notes: Low Income Cut-off (LICO) is calculated on a before taxes basis.

The basic benefit would vary for family sizes and population of the families' community in the versions of a GAI where the basic benefit is equal to the LICO threshold.

Individuals over age 65 and families with the oldest member over 65 are excluded.

Does not account for behavioural changes that would result from a guaranteed income.

A 0% reduction rate is effectively a universal demogrant while a 100% reduction rate is effectively a top-off.

Professor Milligan defined income for phase-out purposes as total income less social assistance and child benefits.

The costs of GAI's with a 15,000 basic benefit were calculated using the Survey of Labour and Income Dynamics persons file. The costs for versions with a basic benefit equal to LICO was calculated using the Economic Family file.

the cost of a range of designs that all had a 50 percent reduction rate but different basic benefits.⁶⁴ Their cost estimates range from \$33.1 billion to \$60.3 billion (in 2010 dollars).⁶⁵ The federal government also calculated the cost of a hypothetical guaranteed annual income with a reduction rate of 27 percent and basic benefit of \$6,117 for each adult (ages 18–64) and \$4,078 for each child (in 2010 dollars). The total cost was estimated at \$50.7 billion (in 2010 dollars) (Canada, Employment and Social Development Canada, 1994).⁶⁶

Importantly, all of these estimates, including Professor Milligan's, are static, meaning they do not account for how people might change their behaviour in response to a guaranteed income program. If people are less willing to work and participate in the labour force—that is, if they reduce their labour supply—then the cost of the program would increase, because those

⁶⁴. Professors Hum and Simpson estimated the cost of NIT-style GAIs with four different basic benefits: 70 percent of Low Income Measure, 85 percent of Low Income Measure, 70 percent of Market Basket Measure, and 85 percent of Market Basket Measure. All of these basic benefits are lower than the ones used in Professor Milligan's estimates.

⁶⁵. All inflation adjustments are done using the Consumer Price Index from Statistics Canada (2013i).

⁶⁶. The basic benefit used in the federal government cost estimate was designed so that all families of two with equal household income would receive the same benefit. A lone-parent family would receive a benefit for the first child equal to the amount that would have been transferred to an adult. For any additional children, the lone-parent family would receive the child level of benefit. The original basic benefit amounts in the 1994 paper were \$4,500 per adult and \$3,000 per child.

individuals would receive a larger cash transfer than what the static estimates suggest. There is also the potential for tax revenue to decline if people earn less taxable income as a result of reducing their labour supply.

Summary

Despite being a relatively straightforward concept in theory, designing a guaranteed annual income would encounter many practical challenges—some of which threaten its conceptual appeal. The practical challenges stem from a lack of clarity on even basic design features. Various program types are discussed (negative income tax, universal demogrant, and top-up), which all have important yet different implications. For instance, details of key program features—such as the basic benefit and reduction rate—require balancing competing priorities with regard to providing an adequate transfer amount, keeping program costs low, and minimizing work disincentives. However, the arguably insurmountable challenge is implementing a guaranteed income, which is the subject of the next section.

4. The challenge of implementing a Guaranteed Annual Income

To fully realize the potential benefits of a guaranteed annual income, the program must be a replacement of rather than an add-on to the current income support system. If the current system remains largely intact, then the potential for administrative savings through greater simplicity would be lost.⁶⁷

This section argues that replacing the existing Canadian income support system would be such a challenging a process that success seems unlikely. First, all three levels of government—federal, provincial, and local—share responsibility for operating Canada’s income support system, meaning that a reform as extensive as a guaranteed annual income would require building a political consensus between governments with some governments abdicating their responsibility in the existing income support system. Even with sufficient agreement between governments to proceed with reform, a GAI would face further challenges when it comes to replacing particular programs that serve specific purposes and/or target certain groups.⁶⁸ However, pressure to maintain existing programs risks keeping the current system largely intact. There is also a possibility that implementing the reform could become an administrative disaster, requiring large one-time costs that would cut into the near term savings from implementing a GAI. Finally, if politicians and bureaucrats managed to overcome these challenges and implement the reform, over time they would almost certainly come under pressure to increase the benefits of the GAI and/or create additional programs targeting special interest groups.⁶⁹ The former would drive up the costs of the program and the latter

67. In 1969, Milton Friedman spoke against the Nixon Administration’s proposal to introduce a guaranteed income program called the Family Assistance Plan primarily because it would have supplemented, not replaced, the welfare system of the time (Moffitt, 2003). The proposal was never ultimately implemented.

68. It is beyond the scope of this paper to judge which specific programs should be replaced.

69. “Special interest group” is not intended to be a disparaging term in this context. It is used simply to describe groups with a narrow interest that may or may not work in the general public interest. These groups include but are not limited to social policy activists,

would diminish the benefits derived from administrative simplicity. The rest of this section explores these challenges in more detail.

The challenge of implementing reform across levels of government

To fully realize the benefits of reform, programs at the federal, provincial, and local level must be collapsed and replaced with a single guaranteed annual income.⁷⁰ This presents a major implementation hurdle, particularly if the program is federally operated, as typically envisioned. The decision to implement a GAI reform must be shared across levels of government and that involves securing a consensus among the provinces and the federal government. On first blush, this is not necessarily insurmountable; Canadian history has seen federal and provincial cooperation for important reforms including the Canada Pension Plan in 1997. However, there is reason to believe that obtaining agreement on a federally based program that reduces provincial autonomy and increases centralized policy making would be especially difficult.

The ambitious scope of a guaranteed income reform, which would fundamentally change Canada's income support system, makes agreement across government levels improbable. According to Banting (2008), there is a tendency for policy changes that require cross-jurisdiction agreement to be relatively modest due to the ability of different governments or combination of governments to block a change they disagree with. Building consensus for a major reform such as a GAI would be challenging among governments with different political perspectives and diverse electorates.

Securing provincial support for a federally based guaranteed income program would be especially difficult (and likely problematic) because it requires provincial governments to relinquish their role in social services. Some provinces, particularly Quebec, have traditionally been reluctant to cede powers or responsibilities to the federal government. Provinces may be particularly reluctant or opposed in the case of social services, which is a key component of provincial government policy-making. Total spending by provincial governments on social services, excluding tax measures, constitutes 11.7 percent of combined total program spending (Canada, Ministry of Finance, 2014b; table 3; calculations by authors). And with strong political pressures,

child advocates, environmentalists, business associations, unions, religious groups, and professional associations (Lammam et al., 2013).

70. Collapsing local government income support programs would be arguably less of a barrier to reform because local governments have less autonomy and are ultimately subject to provincial control.

provincial governments may be disinclined to lay off a large number of government workers, as is required to achieve substantial administrative savings.

It is not just that provincial governments may be unwilling to go along with reform. A loss in provincial control over this area would genuinely be undesirable since the current structure allows for considerable autonomy and diversity among the provinces. It could also be detrimental as provincial governments, through their decentralized presence, can better tailor social services to the needs of their respective populations. A centralized federal guaranteed income program moves away from this model (**box 1**). In addition, differences in the cost of living across the country raise critical questions about a one-size-fits-all approach.

Provincial governments may also have an interest in preserving some national programs such as the Canada Pension Plan (CPP) and Employment Insurance (EI). The CPP is operated by the federal government, but jurisdiction over the program is actually shared with the provinces and the consent of provincial governments is required to make any reforms to the CPP. Provincial governments may oppose replacing the CPP with a federal guaranteed income because it could weaken provincial influence within Canada's federal system.

While Employment Insurance is under the purview of the federal government, some provincial governments would have an interest in preserving that program. Canadians living in Quebec and the Atlantic provinces receive more in total Employment Insurance benefits than they contribute to the program through premiums, while other provinces are net contributors to the program (MacKinnon, 2013). The EI program effectively redistributes tax dollars from the rest of Canada to residents in Quebec and the Atlantic provinces, so it is unlikely that these provincial governments would risk losing this transfer to their citizens. A GAI may also redistribute tax dollars this way but it is an open question whether the extent of regional redistribution would be greater or lesser compared to the status quo. This means regional support for a federally based guaranteed income program that replaces EI is uncertain.

Challenges in replacing specific programs

The more programs replaced by a guaranteed annual income, the greater the potential for administrative savings. Even assuming that broad agreement can be found for the general principle of a GAI that replaces the current system, it becomes more complicated once specific programs are considered. In some cases, a legitimate case can be made for exempting programs from the reform. For instance, some programs, such as programs for the disabled and mentally ill, have certain goals or purposes that may not be easily incorporated into a guaranteed annual income. However, exempting programs

Box 1: The risk of more centralized policy making

In addition to implementation challenges, a GAI, as defined in this paper, would increase centralized social policy making by placing more authority over decisions in the hands of the federal government. As a result, some of the benefits of decentralized policy making would be lost as provincial and local governments cede power over income support programs. Compared to regional governments in other countries with a federal system, Canadian provinces have a great deal of flexibility in establishing and operating income support programs (Banting, 2006). The decentralized nature of Canada's system allows provincial governments to experiment with different policies and to learn from one another (Clemens and Veldhuis, 2013). Decentralization also avoids the problems associated with a national one-size-fits-all program that may not reflect the particular needs of every province's population.

The Canadian experience with reforming social assistance in the 1990s is telling evidence on the benefits of decentralization. In 1996, the federal government reformed the Canada Assistance Plan, the primary transfer from the federal government to assist in funding social programs. The federal government reduced the size of the transfer and removed conditions placed on provincial governments for accepting the transfer. The renamed Canada Health and Social Transfer (later split into the Canada Social Transfer and the Canada Health Transfer) allowed for greater flexibility in provincial policy making (Gabel et al., 2004).

Provincial governments were then able to experiment and find different policy approaches that helped their respective populations move off the welfare rolls. As a result of these reforms, the proportion of Canadians on social assistance plunged dramatically (see discussion in Section 2). The decline in both the number and rate of Canadians on social assistance was partly achieved by provincial governments employing various policy strategies tailored to their own population (Schafer et al., 2001). An important lesson from the reforms of the 1990s is that decentralizing policy decisions to the provinces and allowing for experimentation can lead to positive outcomes, particularly in the area of social assistance programs (Clemens and Veldhuis, 2013). A national GAI would take a step backward and centralize the entirety of the income support system with the federal government.

creates the risk that a GAI becomes an add-on rather than a replacement to the income support system.

While some people may gain by a higher overall government transfer after reform, others may lose if programs targeting them are replaced.⁷¹ While it is unlikely that government transfers are currently distributed optimally to those most in need, many individuals have planned their finances based on the transfers they are currently receiving or expect to receive in the future. For example, many Canadians are relying on Old Age Security to provide a key source of income in retirement (Mintz, 2009). If Old Age Security is collapsed into a broader guaranteed annual income program that offers a smaller cash transfer to the elderly, low income Canadians nearing retirement may find it difficult to adjust their plans.⁷² This raises important questions about exempting Old Age Security from reform or at the very least phasing it out over a long period of time.

The Canada Pension Plan (CPP) is another income support program for the elderly that presents challenges for a GAI reform. But there is an additional issue beyond the concern that some Canadians may be relying on CPP for retirement. The CPP differs in that it is a compulsory contribution-based pension program. The purpose of the CPP, unlike Old Age Security, is not to provide a minimum income level for all seniors independent of work history. Those who do not contribute to the program do not receive benefits.⁷³ Because of this feature, and the fact that the CPP fund currently has net assets of approximately \$200 billion, there would be an added element of complexity in dismantling CPP as part of a guaranteed annual income reform.

Programs for Canadians with disabilities pose another problem for implementing a GAI reform. There is a compelling case for the severely disabled to warrant a larger transfer because of a reduced ability (or inability) to work as well as higher expenses that are required to manage their disability.⁷⁴ In the context of a guaranteed income reform, this can be achieved by

71. In 1994, a federal government paper examined the winners and losers of a hypothetical guaranteed annual income. Among other things, it found that 20 percent of families with a disposable income from \$0 to \$20,000 were losers and 70 percent were winners. For more details, see Canada, Employment and Social Development Canada (1994).

72. On this basis, the Macdonald Commission (1985) argued in favour of maintaining Old Age Security (but not the Guaranteed Income Supplement) in its guaranteed annual income proposal.

73. The level of benefits one receives is based on lifetime contributions.

74. It is important to note that many people living with a disability are part of the workforce, despite their limitations. According to data from Statistics Canada's Canadian Survey on Disability, 49 percent of Canadians with disabilities aged 25 to 64 were employed in 2011, compared to 79 percent of Canadians without a disability (Statistics Canada, 2014e). The employment rate for Canadians with a "mild" disability was 68 percent and for those with a "very severe" disability it was 26 percent.

either providing a larger cash transfer or maintaining programs that currently target the disabled. Both options would diminish the simplicity of a guaranteed annual income reform and reduce administrative savings since an administrative apparatus would be required to ensure that recipients of disability benefits are actually disabled.

An additional consideration is whether to preserve income support programs and tax expenditures with other specific purposes or goals. For example, the GST/HST Credit is designed to offset the regressive nature of the sales tax burden. The credit helps ease the financial impact on low-income Canadians since sales taxes make up a larger share of their income than those in higher income groups. The GST/HST Credit is arguably less relevant under a guaranteed annual income reform because the cash transfer would help ease the regressive burden of sales taxes on low income families. The decision to fold the GST/HST Credit into a GAI is nonetheless complicated by the credit's specific purpose.

There is still a broader challenge for terminating existing income support programs and replacing them with a single GAI. It is in the interest of individual bureaucrats and government officials to preserve the programs that they are employed to run. The administrative savings from a GAI would partly stem from shrinking the size of the federal, provincial, and local government bureaucracies. But bureaucrats are hardly disinterested bystanders in the policy process.⁷⁵ They have strong incentives to resist the efficient implementation of a guaranteed annual income that would make their position unnecessary. Put differently, there would likely be considerable internal pressure on governments to exempt programs that employ a large number of bureaucrats.

Each program that is preserved detracts from administrative savings, which is the primary benefit of a GAI reform. If exceptions are made in one case, it may bolster the argument for making further exceptions for other programs, thereby creating the risk that the GAI would largely become an add-on to the current system. The idea of one program that can replace all or most of the income support system sounds appealing and straightforward but it is not nearly so simple in the real world.

75. The idea that bureaucrats, like everyone else, pursue their own interests is one of the important insights from Public Choice economics, which uses traditional economic tools and methods to analyze the political process and understand how governments operate. For more discussion on Public Choice economics, see Lammam et al. (2013).

Administrative challenges during transition

Transitioning from the current income support system to a guaranteed annual income would no doubt be a challenge for governments to administer. Many programs currently operate at different government levels and involve different departments and/or agencies within government. Coordinating the run-down and consolidation of a large number of programs across departments and jurisdictions has the potential to become an administrative disaster.

A major reform taking place in the United Kingdom's income support system offers insight into how administratively difficult a guaranteed income reform can be. The British reform collapses six separate income support programs into a single program called the Universal Credit. However, as the National Audit Office has found, attempting to do so has been plagued by delays and cost increases (NAO, 2013).

The legislation to enact the Universal Credit received Royal Assent in March 2012. By February 2013, implementation ceased for 13 weeks due to a lack of "detailed blueprint and transition plan for Universal Credit" (NAO, 2013: 6). There have also been issues with the usability of the IT systems developed for the Universal Credit and a lack of transparency and financial control. As the National Audit Office report put it: "The Department has delayed rolling out Universal Credit to claimants, has had weak control of the programme, and has been unable to assess the value of the systems it spent over £300 million to develop" (NAO, 2013: 9).⁷⁶

Similar and even more problematic administrative challenges could occur in Canada given the scope and complexity of a guaranteed income reform, which is further complicated by the need to coordinate between the federal and provincial governments. While the potential for administrative savings is the main conceptual advantage of a guaranteed annual income, the risk is that the savings could be much lower (at least in the near term) if the costs of implementation become out of control due to administrative transition challenges.

⁷⁶ Such government administrative shortcomings are not uncommon in Canada. In a review of Auditor General Reports from 1988 to 2013, Lammam et al. (2013) found over 600 instances where Canada's federal government failed to manage costs, spending, delays, financial information, and other project-related issues. The failures ranged from basic tasks such as issuing cheques correctly to delivering major capital effectively and efficiently. The total cost of these failures in federal programs and initiatives over the period is estimated at between \$158 billion and \$197 billion.

Risks after implementation

Even in the unlikely case that a guaranteed annual income is successfully implemented, there would be enduring risks after reform. If interest groups and activists pressure the government to expand or tinker with the program, as they always do, the resulting added complexity would diminish the benefits of the reform. Consider that the size of the basic benefit is a matter of controversy even among the strongest supporters of a guaranteed annual income. Continued advocacy for a larger cash transfer would no doubt persist after implementation.

The history of the American Earned Income Tax Credit (EITC) lends credence to this concern. The EITC is similar to the Canadian Working Income Tax Benefit (WITB) and has common design features with a negative income tax. Specifically, it is a refundable tax credit that offers a cash transfer and has a reduction rate that diminishes the benefit as income grows (it also has a phase-in rate). The EITC was originally meant to be a much smaller and more targeted program with the modest goal of offsetting the negative effects of payroll taxes (Holt, 2006). It later expanded to become one of the largest US federal programs (Holt, 2006). Spending on EITC grew from \$1.25 billion in 1975 to \$60.4 billion in 2009, outpacing the growth in America's population, GDP, and overall federal spending (Clemens et al., 2013). Middle class families now qualify for program benefits.

Canada's WITB may be on a similar path. In 2009, after only two years of implementation, the WITB was enhanced with larger benefits and an increased phase-in rate (Clemens et al., 2013). Organizations such as the Broadbent Institute and Caledon Institute of Social Policy continue to advocate for larger increases (Broadbent, 2013; Torjman and Battle, 2013). Increasing the WITB (or EITC) is not necessarily a bad idea. Rather, the pressure to increase the cash transfer is indicative of how government programs can grow over time. A guaranteed income program could, after implementation, come under similar pressure. The risk, then, is that the program would be much more generous (and costly) over time.

Yet another risk comes from the potential for a simple guaranteed annual income to increase in complexity over time due to special interest group activism. Special interest groups compete with each other to gain government transfers or other forms of concentrated benefits for those they represent.⁷⁷ They have an incentive to push for more and/or larger transfers to justify to supporters the cost of their continued existence. Special interest groups would be motivated to pressure the government to create special

77. For seminal work on the theory of special-interest competition, see Becker (1983).

benefits for particular groups or categories of people, thereby complicating the GAI system.⁷⁸

Summary

A guaranteed annual income reform that captures the full benefit of simplicity and administrative savings would be challenging given several practical implementation barriers. First, all three levels of government (federal, provincial, and local) have to agree to collapse all income support programs to make way for a single GAI. Second, complications involved in replacing specific programs create the risk that the GAI becomes an add-on rather than a replacement to the income support system. Third, experience in the UK with a much less comprehensive and complex reform suggests that transitioning to a guaranteed income would encounter major administrative problems. Finally, even if we assume the reform can be successfully implemented, a major risk after implementation comes from particular groups, who, through political pressure, would expand or complicate the program, thereby undermining its chief advantage. Taken together, it seems unlikely that these barriers can be successfully overcome with a GAI program achieving the goal of simplifying the income support system over the long term.

78. To minimize the risk of special-interest group activism, scholar Charles Murray of the American Enterprise Institute suggests enshrining the guaranteed income program into the constitution in a way that prevents tinkering by politicians (Murray, 2006). This is not necessarily a panacea. Constitutional changes would require very broad support, making the reform even more politically challenging. Constitutional enshrinement would also slow down the process of making legitimate improvements to the guaranteed income program if required.

5. Work disincentives and evidence from experiments with a Guaranteed Annual Income

The practical challenges of implementing a guaranteed annual income in Canada make this an implausible reform. But we can still glean valuable insights from examining the available evidence on the effect of a guaranteed annual income on work incentives. Indeed, one of the most common and important criticisms about the program is that it discourages people from working. A series of experiments in Canadian and American cities in the late 1960s and 1970s has allowed researchers to measure the program's effect on labour supply. The experiments provided a negative income tax to a sample of the population and measured the number of hours recipients worked compared to a control group who did not have access to the program. The results generally point to a decline in hours worked.

This section begins by explaining how a negative income tax can adversely affect work incentives and then summarizes the evidence from the Canadian and American experiments. It also explains the incentive effects of an income top-up and universal demogrant, although virtually no direct evidence exists for these types of GAIs. The section also discusses the existing income support system, which also has features that discourage work. The section concludes by considering a possible alternative to a guaranteed annual income, namely a program that subsidizes work.

The effect of a negative income tax on work incentives

Before summarizing the labour supply results of the experiments, it is important to first understand how a negative income tax is detrimental to work incentives. A negative income tax can discourage people from working in two ways. The first results from paying people a sum of money regardless if they work or are looking for work. This is grounded in the idea that able-bodied people make decisions based on trade-offs between work and leisure. People generally prefer leisure, but leisure can be costly because it takes away

the opportunity to earn income (Keane, 2011). People choose their specific balance of work and leisure based on their preferences and circumstances. Government programs that reduce the cost of leisure encourage individuals to rebalance towards more leisure. The risk, then, is that people are less willing to work because the cost of not working decreases.

A negative income tax can also discourage work by reducing the marginal reward of earning more income. Someone's willingness to do more work depends on the amount that he or she will be compensated for that additional work. Economists refer to this as the marginal benefit of working. A negative income tax depresses the marginal benefit of working because the cash transfer decreases (or is clawed back) as income grows. For instance, if the basic benefit was reduced by 50 percent for every dollar earned, a recipient earning \$100 in employment income would only keep \$50. The 50 percent reduction in benefits effectively operates like a marginal tax rate on working. For some people, the off-setting reduction in benefits would discourage them from working.

The idea that people are discouraged from working if there is a reduction in the marginal benefit of work is supported by a voluminous literature on the impact of taxes. Empirical research finds that high and increasing marginal tax rates—that is, the amount of income lost to taxes on the next dollar earned—discourage work effort (Palacios and Harischandra, 2008; Murphy et al., 2013). The reduction rate in a negative income tax program is conceptually similar to the marginal tax rate in that it reduces an individual's reward for earning an extra dollar. In fact, when combining the reduction rate with the prevailing personal income tax system, the negative impact on work incentives could be larger due to a higher *effective* marginal tax rate.

Table 9 and **figure 4** illustrate what the total marginal effective tax rate would be for a recipient earning \$17,787 in the various provinces under a hypothetical guaranteed annual income with a 50 percent reduction rate (\$17,787 is Alberta's basic personal amount, the amount of income earned tax free, which is the highest among the provinces in 2014).⁷⁹

When the federal and provincial income tax systems are accounted for, the hypothetical marginal effective tax rate is highest in Quebec (at 78.5 percent). This means GAI recipients would lose nearly 80 cents for each additional dollar they earn. The lowest marginal effective tax rate is 70.1 percent, the rate in both British Columbia and Ontario. Although slightly better than the hypothetical situation in Quebec, GAI recipients would still only retain 30 cents for every additional dollar earned, thereby discouraging some people from working more.⁸⁰

⁷⁹. Setting the income level at \$17,787 ensures that recipients would face a marginal income tax rate regardless of the province they live in.

⁸⁰. Such adverse effects could be mitigated with comprehensive tax reform aimed at reducing marginal income tax rates. However, bundling tax reform with a GAI reform would increase the scope of an already comprehensive undertaking, making the reform even less plausible.

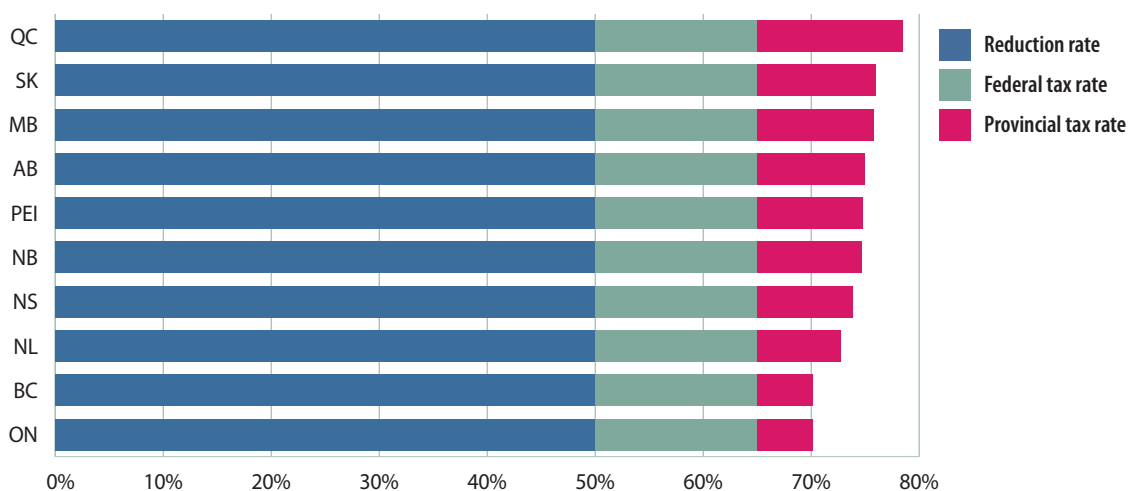
Table 9**Combined federal and provincial marginal income tax rate plus a 50% reduction rate, 2014**

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
<i>Marginal income tax rate at \$17,787</i>										
Provincial	5.1%	10.0%	11.0%	10.8%	5.1%	13.5%	9.7%	8.8%	9.8%	7.7%
Federal	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Combined federal-provincial	20.1%	25.0%	26.0%	25.8%	20.1%	28.5%	24.7%	23.8%	24.8%	22.7%
<i>Combined rate plus 50% reduction rate</i>										
Federal-provincial	70.1%	75.0%	76.0%	75.8%	70.1%	78.5%	74.7%	73.8%	74.8%	72.7%

Source: PwC, 2014.

Notes: Alberta has the highest basic amount at \$17,787. A hypothetical recipient is assumed to have a total income of \$17,787 so they would be subject to a provincial marginal income tax rate regardless of their province of residence.

Quebec's provincial tax rate is adjusted for the federal abatement.

Figure 4**Combined federal and provincial marginal income tax rate plus a 50% reduction rate at \$17,787**

Source: See table 9.

The potential to discourage work is commonly cited as an argument against a negative income tax or a guaranteed income more generally. It is an important concern because discouraging work could foster long term dependency on government transfers with widespread effects on the economy. In addition, a guaranteed annual income could perversely encourage underground activity as recipients work “under the table” or decide not to report income to avoid having their benefits reduced.⁸¹

Experiments with a negative income tax and the effect on labour supply

Five experiments with a negative income tax in North America (one in Canada and four in the United States)⁸² allowed researchers to empirically measure the effect on work disincentives. Each case provided cash transfers to households and measured the effect on hours worked (and other variables) relative to a control group that did not receive cash transfers. The American experiments took place over a number of years during the 1960s and 1970s—New Jersey in 1968–1971; Seattle, Washington and Denver, Colorado in 1969–1978; rural North Carolina and Iowa in 1970–1973; and Gary, Indiana in 1971–1974 (Hum and Simpson, 1993). The Canadian experiment, referred to as MINCOME, took place in urban and rural Manitoba from 1975 to 1979, although data were collected for only the first two years (Forget, 2011).

All five experiments found a reduction in the number of hours worked (Anderson and Block, 1993). However, studies have produced different findings. For males, the reduction in hours worked ranges from one percent to nine percent. There is an even wider range among females, from a 33 percent decrease in hours worked to a five percent increase (Hum and Simpson, 1993).⁸³ **Table 10** displays the full range of results from these studies.⁸⁴

⁸¹. The potential problem of underreporting income was investigated using data from two experiments in GAI that took place in Indiana and Washington/Colorado. Underreporting was found in both experiments and estimated to be large enough to significantly impact the data on work responses (Burtless, 1986). If this happens on a grander scale, it may undermine the legitimacy of the program and, over time, reduce support for it among taxpayers.

⁸². For a more complete description and history of the five North American GAI experiments see Hum and Simpson (1993).

⁸³. The five percent increase in hours worked was found for the experiment in Gary, Indiana. No explanation was offered for the increase (Burtless, 1986). Other studies, however, investigating the same experiment found a decrease in hours worked between three percent and 20 percent (Hum and Simpson, 1993).

⁸⁴. Other findings suggest that a guaranteed income had little effect on recipient consumption and investment behaviour, and that it increased recipient marriage dissolution. The latter finding has been disputed (Anderson and Block, 1993; Hum and Simpson, 1993).

Table 10**Labour supply response to a guaranteed annual income, by experiment and study**

Experiment/author	Percent decrease in annual hours worked (%)		
	Husbands	Wives	Single female heads
New Jersey			
Keely (1981)	7	33	n/a
Robins (1985)	2	25	n/a
Burtless (1986)	1	25	n/a
North Carolina/Iowa			
Keely (1981)	9	29*	n/a
Robins (1985)	3	28	n/a
Burtless (1986)	3	28	n/a
Washington/Colorado			
Keely (1981)	8*	21*	15*
Robins (1985)	7*	21*	16*
Burtless (1986)	8	17	9
Indiana			
Keely (1981)	5	3	28
Robins (1985)	2	20	10
Burtless (1986)	7	-5	30
All US Experiments			
Robins (1985)	5	21	13
Burtless (1986)	7	17	17
Manitoba			
Hum and Simpson (1993)	1	3	7

Source: Hum and Simpson, 1993.

Notes: This table is a replication of Table 2 in Hum and Simpson, 1993 (p. 279). Their calculation for "Husbands" in the Manitoba experiment includes single individuals.

An asterisk (*) indicates a statistical significance of 5 percent or less. In some cases, statistical significance is not reported.

The wide range of results is partly driven by differences in the design of the experiments, including the basic benefits and reduction rates that were tested.⁸⁵ There is also a range of different results for the same experiment. For example, studies on the experiment in Gary, Indiana find that males reduced their hours worked between two and seven percent (Hum and Simpson, 1993). While the academic literature generally concludes that a GAI adversely affects work incentives, there is less agreement on how large (or how significant) the effect is (Widerquist, 2005).⁸⁶ But there is reason to believe that the effect on

⁸⁵. Even within experiments in the same region, multiple basic benefits and reduction rates were tested.

⁸⁶. There is also non-experimental evidence that uses various models to predict the impact of a guaranteed income on labour supply. The non-experimental studies typically find larger effects on labour supply than those in the five experiments (Hum and Simpson, 1993).

hours worked found in the experiments is understated. Participants would have been aware that the transfer lasted only a few years and thus likely did not change their behaviour in response to the same extent had they received the transfer in perpetuity (Anderson and Block, 1993).⁸⁷

Because recipients responded by reducing the number of hours worked, their overall incomes did not increase by the same amount as the cash transfer. In the Seattle-Denver experiment, a two parent household received a \$2,700 cash transfer above the general benefits received by members of the control group. But the transfer increased total household income in the treatment group by only \$900 because fewer hours worked resulted in a decrease of earned income of \$1,800 (Burtless, 1986).

The results of the North American experiments point to negative effects on work incentives. The exact magnitude of the impact is less certain and partly depends on program design (including the amount of the basic benefit and reduction rate). But the important take-away is that a transfer without any work requirements leads recipients to reduce the amount that they work. This has implications for the income support system and the importance of work requirements.

Work disincentives in income top-ups and universal demogrant

All North American experiments employed a negative income tax so it is important to note that an income top-up or universal demogrant would likely have different effects on work incentives. An income top-up is similar to a negative income tax in that it would subsidize leisure and reduce the marginal benefit of working, thereby discouraging people from working. However, under an income top-up, transfers are reduced by a dollar for every dollar that the recipient earns. Put differently, an income top-up has a reduction rate of 100 percent. As a result, the potential for work disincentives is much greater than with a negative income tax. In addition, an income top-up may encourage some people to drop out of the labour market entirely (Kesselman, 2013). People earning income slightly above the basic benefit would not receive a cash transfer under the top-up system, meaning they would not be much better off than someone who is not working and receiving the full benefit of the top-up transfer. As a result, a worker earning slightly above the basic benefit may stop earning income (or find ways to conceal their earnings) in order to qualify for the cash transfer.

⁸⁷. One experiment in Washington State enrolled 170 households for a 20 year period. However, benefits were only paid out for nine years and the sample is too small to draw a meaningful conclusion (Anderson and Block, 1993; Widerquist, 2005).

A recent study published in the *Canadian Public Policy* journal simulates the labour supply response of a hypothetical top-up program in Quebec to estimate the magnitude of the potential effect on employment (Clavet et al., 2013).⁸⁸ The authors find that, under the top-up system, the number of single working age males and females not participating in the labour market would increase markedly—by as much as 22.0 percent and 19.4 percent, respectively. Their simulations suggest that a top-up program would be highly detrimental to work incentives.

A universal demogrant differs from a negative income tax and an income top-up in that it does not have a reduction rate. So while it would still subsidize leisure, a universal demogrant would not directly reduce the marginal reward for earning income (it would do so indirectly if the income is taxed regularly under the existing personal tax system). For this reason, it has been argued that a universal demogrant could conceivably improve work incentives compared to the existing income support system (Dolan, 2014). However, by providing a transfer that subsidizes leisure for the whole population, and not just those with low income, the overall impact of a universal demogrant on work incentives could be worse than the current system. More research is needed to determine conclusively the relative impact of the different types of GAI designs on work incentives.

Work disincentives in the current income support system

Although a guaranteed annual income can be fairly criticized for discouraging work, the same criticism also applies to programs in the existing income support system, particularly those that reduce government benefits as income increases.⁸⁹ The total reduction rate in the existing system is the cumulative reduction rate of all the various transfers (both cash and in-kind), which each have different individual reduction rates and often apply to different levels of income.

For instance, Ontario Works (the province's main social assistance program) and the Ontario Disability Support Program (ODSP) have a reduction rate of 50 percent, exempting the first \$200 per month earned by the recipient (Tweddle et al., 2014). At the same time, social housing in Ontario increases rent by 30 percent for every dollar earned (Stapleton, 2007). A recipient of Ontario Works or ODSP who lives on social housing would therefore face

⁸⁸. The basic benefit simulated was equal to the Market Basket Measure for disposable household income in municipalities with a population fewer than 30,000 inhabitants. In 2011, that equalled \$32,777 (Statistics Canada, 2013d)

⁸⁹. Any GAI proposal should therefore not be judged in isolation but in the context of how much it discourages work compared to the system it replaces.

a combined reduction rate of at least 80 percent. And this does not even account for income taxes or the various other measures (programs and tax credits) provided by the provincial and federal income support systems.⁹⁰

The marginal effective tax rate of welfare recipients depends on their circumstances and the programs they are enrolled in. In some cases, the cumulative reduction rate can add up to more than 100 percent (Stapleton, 2007). Here, a recipient is not just discouraged from earning income, but actually punished for doing so.

The bottom line is that the existing income support system imposes a similar problem as a negative income tax in that it discourages people from working. In particular, the existing system reduces, and in some cases eliminates, the marginal benefit of working. The advantage relative to a GAI, however, is that programs in the existing system can and do place conditions and restrictions on transfers designed to encourage recipients to search for work and/or discourage long-term dependency. Canada has had success with stricter conditions based on the social assistance reforms of the 1990s, which resulted in lower dependency rates (Kneebone and White, 2009).

Work-based subsidy to achieve a pre-set income level

A fundamental drawback of the conventional guaranteed annual income (and a negative income tax in particular) is that the transfer is unconditional and thus does not encourage people to work. An alternative approach based on active government intervention, and one that can still strive to achieve the broad goal of guaranteeing a pre-set income level, is a work-based subsidy. Under a program designed to subsidize work, recipients would qualify for a government transfer by being employed. The transfer would bolster the income that the recipient earns. The main advantages of a work-based subsidy

⁹⁰. Tax expenditures, which are part of the income support system, can also have reduction rates. Two prominent examples are the Canada Child Tax Benefit and the GST/HST Credit. Such tax expenditures increase the marginal effective tax rate and reduce work incentives, particularly after \$15,000 of income (Laurin and Poshmann, 2013). The effect of tax measures on the marginal effective tax rate depends on circumstances such as family composition and where the recipient lives. In an extreme case, a Quebec family with two young children and an annual income of \$35,000 to \$40,000 would face a marginal effective tax rate of approximately 80 percent excluding any other income support programs (Laurin and Poshmann, 2013). For Ontario families with children and an income of \$25,000 to \$45,000, the marginal effective tax generally exceeds 50 percent (Laurin and Poshmann, 2013). A recent provincial government task force on reforming Ontario's social assistance system recommended, among other things, that the Ontario government consider ways to integrate tax measures with the goal of reducing the marginal effective tax rate for low income Ontarians (Lankin and Sheikh, 2012).

are that it helps people who are working, keeps them attached to the labour force, and minimizes the risk of complete dependency that exists in an unconditional program.

Just as experiments were used to study the effects of a guaranteed annual income, the idea of a work-based subsidy was similarly tested in another important Canadian experiment called the Self-Sufficiency Project (SSP), which took place in British Columbia and New Brunswick in the 1990s. Instead of giving recipients a cash transfer regardless of employment status, the SSP provided a cash transfer to individuals who left social assistance after being on it for one year and began working for at least 30 hours per week. Recipients received the transfer for a maximum of three years. The goal of the program was to reduce the number of people on social assistance and to encourage full time work. In contrast to the evidence on a guaranteed annual income, evidence from the SSP experiment shows that a cash transfer conditional on working encourages people to work.

The SSP initially provided a cash transfer based on the income benchmark of \$37,500 in 1994 dollars.⁹¹ The cash transfer was calculated by subtracting the individual recipient's earned income from the benchmark and dividing the result by two:

$$\text{Cash Transfer} = (\$37,500 - \text{Earned Income}) / 2$$

At the end of the six year program, the results showed that 47.4 percent of recipients were employed full time compared to 42.5 percent of the control group who did not receive the work related transfer (Ford et al., 2003). Put differently, making the cash transfer conditional on finding full time work encouraged people to find work.

The Self-Sufficiency Project was never fully implemented in Canada. However, a work-based subsidy program of a different design, called the Working Income Tax Benefit (WITB), was introduced in 2007. WITB is a refundable tax credit⁹² intended to encourage individuals with low income to increase or maintain their participation in the labour force by supplementing their income. The amount of cash transfer provided through WITB is based on circumstances like where one lives and one's marital status. Income also affects the amount of cash transfer through a reduction rate of 15 percent that is applied once income is above a certain threshold. WITB also has a phase-in rate of 25 percent. The phase-in rate means that as a recipient's income grows,

⁹¹ The income benchmark was selected to ensure that full time work paid better than social assistance. The benchmark was adjusted over the course of the project to reflect changes in cost of living as well as increases in social assistance benefits.

⁹² A refundable tax credit is a tax expenditure that provides a cash benefit to an income taxfiler even if they do not have any taxable income.

the benefit increases. At a certain income threshold, the phase-in ceases and the reduction rate is applied.⁹³ The phase-in rate allows the WITB to target workers by requiring the recipient to earn an income (Clemens et al., 2013).

WITB is a relatively new program so there is little evidence of its effect on work incentives. However, we can draw on the evidence from a similar program in the United States with a much longer history: the Earned Income Tax Credit (EITC). The American experience with the EITC suggests that the program has, on balance, helped improve work incentives. Reviews of the empirical research find that the EITC encourages participation in the labour market (Holt, 2006; Meyer, 2008).⁹⁴ One study estimates that the EITC, along with other tax changes, was responsible for more than 60 percent of the increase in labour market participation among single mothers between 1984 and 1996 (Holt, 2006).⁹⁵ Despite also having a reduction rate like WITB, there is little evidence that the EITC has discouraged work on balance (Meyer, 2008). Overall, the evidence from the EITC experience suggests that WITB could be an effective tool and perhaps expanded if it remains targeted to those in need.⁹⁶

An expansion to WITB must be pursued with caution to ensure that it continues to target low-income workers and does not become a subsidy for middle class families. The expansion of EITC illustrates this potential danger. In 1975, 8.7 percent of American families received the EITC. By 2009, that share mushroomed to nearly one-in-four families (23.4 percent) (Clemens et al., 2013). The EITC was originally meant to target people with low income

⁹³. Although the WITB initially encourages work, it does provide a disincentive once a recipient reaches the income threshold at which the reduction rate kicks in. In other words, the WITB encourages more work only up to a certain point and then it may begin discouraging it.

⁹⁴. With increasing labour market participation, there is potential to put downward pressure on wages of those already in the workforce. A study by Neumark and Wascher (2007) found that the EITC has led to a reduction in wages for young minority workers.

⁹⁵. Mead (2014) argues that the EITC has encouraged individuals to stay in the labour force and not necessarily enter the workforce. One limitation of both the EITC and WITB is that potential recipients have to be aware of the program for it to influence their work-related decisions. Research on another tax measure, the Children's Fitness Tax Credit, suggests that low income Canadians are less likely to be aware of tax measures (Fisher et al., 2013).

⁹⁶. In fact, Ken Battle of the Caledon Institute of Social Policy has suggested replacing the current system with an expanded WITB and creating programs similar to a guaranteed annual income for those who are less able to work, such as the disabled, as an alternative to a broad-based guaranteed annual income reform (Battle, 2008). Specifically, Battle and his colleagues have proposed a program targeting the disabled based on the negative income tax model that has a basic benefit of \$12,160 and a reduction rate of 50 percent (Mendelson et al., 2010). Under this proposal, \$1,200 of earned income would be exempt from the reduction rate.

but this evolved over time. In 2014, taxfilers with incomes up to \$52,427 could receive the transfer depending on their circumstances (Maag and Carasso, 2014). Because the EITC is a refundable tax credit, a by-product of expansion is that fewer Americans have become net contributors to the income tax system. This has led to the concern that, if an increasing share of voters is not paying into the income tax system, it could distort democratic decision making because voters have an incentive to demand ever more government spending while net payers into the system shoulder a disproportionate share of the costs (Clemens et al., 2013). More research is needed to examine WITB and the arguments for and against expanding the program.

Summary

The five North American experiments with a negative income tax highlight the work disincentive problems of a guaranteed annual income and fuel a more general concern about income support programs, which tend to create similar work disincentives. In some cases, the existing Canadian income support system actually punishes recipients for working by reducing transfers more than a dollar for every additional dollar of income earned. By contrast, work-based subsidies have a track record of encouraging labour force participation. This makes expanding the use of work-based subsidies an interesting alternative reform to a guaranteed annual income, one worthy of further research.

Conclusion

A guaranteed annual income provides an unconditional cash transfer, with the possible exception of an income test. In Canada, it is typically envisioned as a federal program that would replace the existing and much more complicated array of federal, provincial, and local income support programs and tax measures. The total price tag of Canada's income support system is estimated at approximately \$185.1 billion in 2013 (or roughly 10 percent of GDP).

A number of arguments have been put forward in favour of a guaranteed income but the clearest advantage is the potential for administrative savings from collapsing the existing income support system into a single program and doing away with redundancies and unproductive spending. But despite this conceptual appeal, there are practical challenges involved with creating a guaranteed income in Canada that make this reform unlikely.

First consider the challenge of designing a GAI program when a wide range of different design options exist and there is little agreement on key features even among guaranteed annual income proponents. There are important differences between the three types of basic design—negative income tax, universal demogrant, and income top-up—and any GAI program would have to balance the conflicting priorities of providing an adequate transfer amount, keeping program costs low, and minimizing work disincentives.

But the bigger and more important challenge is implementing a GAI program that replaces Canada's existing income support system—a replacement that is essential for capturing the benefit of simplicity and administrative savings. This is likely insurmountable due to the several obstacles involved. First, it would require all three levels of government (federal, provincial, and local) to agree on reform, and some governments would have to abdicate their responsibility in the existing income support system to make way for a single guaranteed annual income program. Second, the complications involved in replacing specific programs create the risk that a GAI program becomes an add-on rather than a replacement to the income support system. Third, experience in the UK with a much less comprehensive and complex reform suggests that transitioning to a guaranteed annual income would encounter major administrative problems that would offset near term administrative savings. Finally, even if we assume the reform can be successfully implemented,

a major risk after implementation comes from special interest groups, who, through political pressure, would push to expand or complicate the program, thereby undermining its chief advantage. Taken together, it seems highly unlikely that these practical challenges can be successfully overcome and that a GAI reform would achieve the goal of simplifying the income support system over the long-term.

Although the practical implementation challenges make a GAI reform implausible in Canada, evidence from five North American experiments with a negative income tax style GAI provides some valuable insights. A negative income tax discourages recipients from working because it subsidizes leisure and reduces the marginal benefit of working. The results from the experiments generally point to a reduction in hours worked by recipients, reinforcing the concern about work disincentives. This has implications for the existing income support system because many Canadian spending and tax measures also subsidize leisure and reduce the marginal benefit of working by decreasing transfers as recipients' earned income increases.

A 1971 Canadian Senate committee report boldly declared that "[GAI] is an idea whose time has come" (Croll Report, 1971: 198). In the intervening four and a half decades, a guaranteed annual income is an idea that still regularly appears and disappears from the Canadian public policy debate. Despite recent interest, a Canadian GAI is unlikely to become a reality in the foreseeable future. In the meantime, there may be alternative reforms that could more plausibly improve the income support system and achieve the same basic goal of guaranteeing a minimum level of income. One possibility is to further examine the role of work-based subsidies, which would encourage able-bodied Canadians to work and avoid the trap of long-term dependency on government programs.

Appendix: Calculating the cost of provincial social services

To provide a sense of how much provinces spend on income support programs, table 3 presented provincial spending on social services as reported in each province's Public Accounts. Quebec and Newfoundland and Labrador, however, do not report a comparable figure in their Public Accounts so one was constructed based on what is contained within "social services" in the other provinces. For Quebec, information within the second volume of the Public Accounts was used. For Newfoundland and Labrador, various ministerial annual reports were used. In addition, some provinces include social housing under social services while others do not, so social housing was added to the figures where appropriate. **Table A1** contains a breakdown of the line items included for each province and the sources from which they were drawn.

Table A1
Sources for calculating the cost of provincial social services

Line item	Sources, 2012/13
British Columbia	
Social Services	Public Accounts, p. 42
Housing	Public Accounts Supplementary Schedules, p. 44
Alberta	
Social Services	Public Accounts, p. 29
Housing	Public Accounts, p. 29
Saskatchewan	
Social Services and Assistance	Public Accounts Volume 1, p. 88
Manitoba	
Family Services	Public Accounts Volume 1, p. 76
Housing	Public Accounts Volume 3, p. 1-41
Ontario	
Children's and Social Services	Public Accounts Annual Report and Consolidated Financial Statements, p. 37
Guaranteed Annual Income System	Public Accounts Volume 1, p. 2-197
Affordable Housing	Public Accounts Volume 1, p. 2-292
Quebec	
Housing	Public Accounts Volume 2, p. 74
Youth	Public Accounts Volume 2, p. 118
Employment Assistance Measures	Public Accounts Volume 2, p. 195
Financial Assistance Measures	Public Accounts Volume 2, p. 195
Administration	Public Accounts Volume 2, p. 195
Assistance Measures for Families	Public Accounts Volume 2, p. 209
Conditions for Seniors	Public Accounts Volume 2, p. 209
Family Resources	Public Accounts Volume 2, p. 304
Financial Assistance to Handicapped Persons for Various Special Needs	Public Accounts Volume 2, p. 304
Financial Exemption Program for Home Assistance Services	Public Accounts Volume 2, p. 304
New Brunswick	
Social Development	Public Accounts Volume 1, p. 24
Nova Scotia	
Community Services	Public Accounts Volume 1, p. 72
Seniors	Public Accounts Volume 1, p. 72
Prince Edward Island	
Community Services and Seniors	Public Accounts Volume 1, p. 18
Newfoundland & Labrador	
Newfoundland & Labrador Housing Corporation	Public Accounts Volume 1, p. 72
Client Services	Department of Advanced Education and Skills Annual Report, p. 26
Income Assistance	Department of Advanced Education and Skills Annual Report, p. 26
National Child Benefit Reinvestment	Department of Advanced Education and Skills Annual Report, p. 26
Mother/Baby Nutrition Supplement	Department of Advanced Education and Skills Annual Report, p. 26
Employment Assistance Program for Persons with Disabilities	Department of Advanced Education and Skills Annual Report, p. 26
Youth and Student Services	Department of Advanced Education and Skills Annual Report, p. 26
Drug Subsidization	Department of Health and Community Services Annual Report, p. 44

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