

Basic Income: Some Thoughts

Workshop on Basic Income: Framing the
Concept for Canada

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Key Points

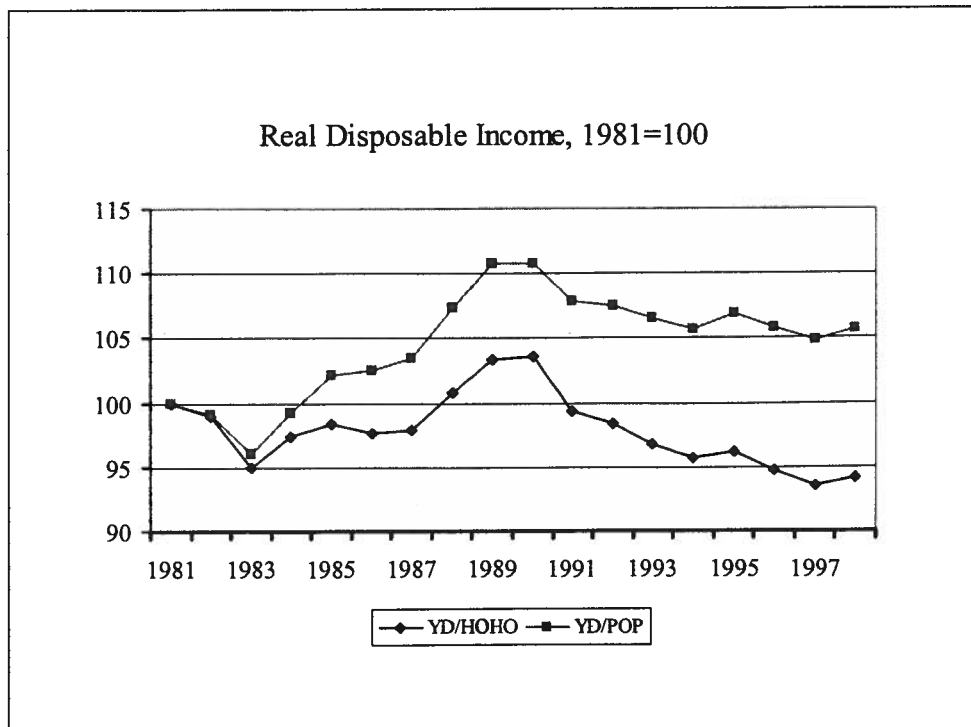
- Economic Performance has been “poor”
- Demand is insufficient
- Basic economic security has been deteriorating
- A Basic Income for all Canadians is a solution to the lack of demand, the insecurity, and the powerlessness

Always be cautious with people proposing solutions. However, note that I have not claimed it to be the only solution!

There will remain a number of challenges for the economy

- Increasing productivity growth
- Provision of public goods
- Regulation of economic activity.

•What is offered is a solution to the distributional problems, through a Basic Income, or as it is known in some circles, Guaranteed Annual Income (GAI) or Negative Income Tax (NIT).



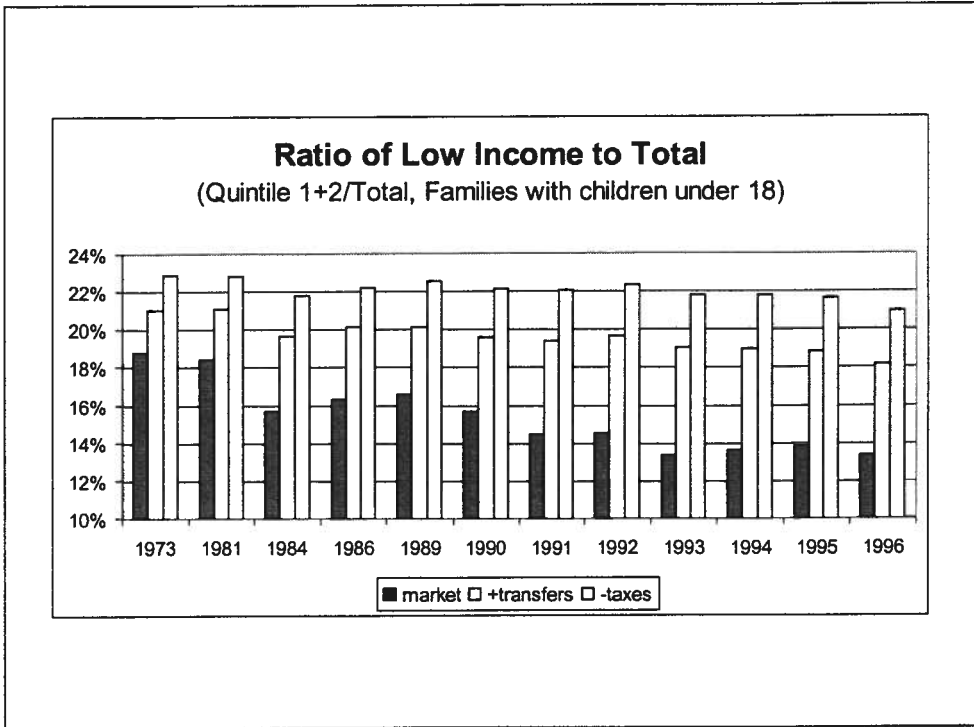
One of the sources of discontent in Canada is the lack of progress in the growth in real disposable income per household.

Although there was some recovery in the 1980s after the recession, the more recent recession plunged the consumer back into a funk. Levels declined below those in 1982, and have so far failed to show any sustained progress. Indeed the incomes per household have declined almost every year since 1989.

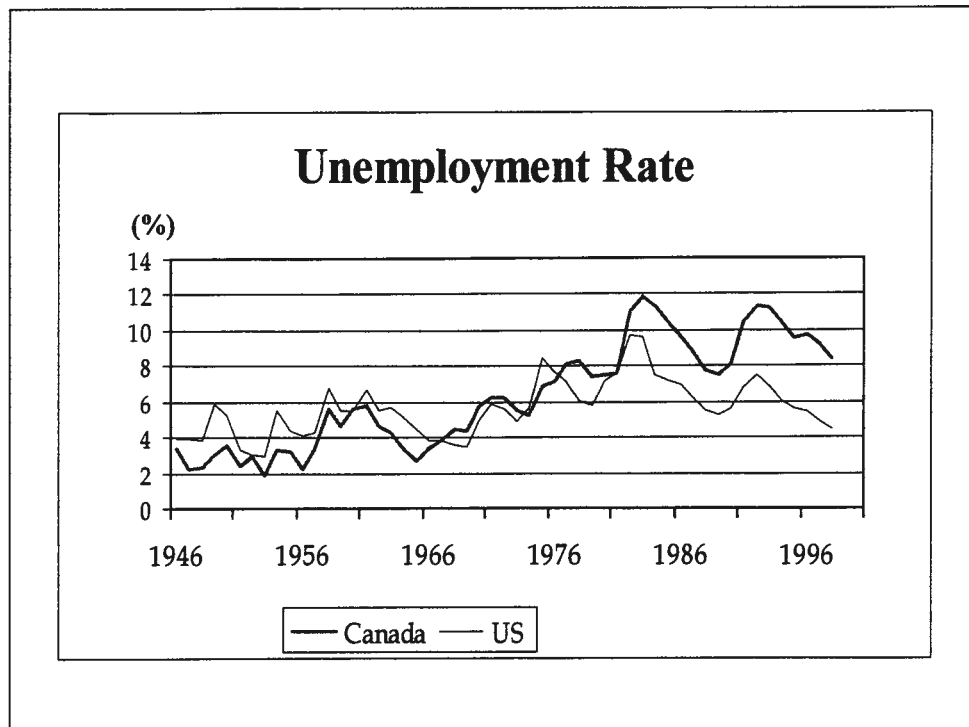
The prospect, starting in 1999, is for some improvement to set in. It will be 2005, however, before levels are back to 1981 values. (This is based on a "current policies continued" case.)

In essence, 25 years will have passed with no real income gains on average.

On a per capita basis, the story is not quite as grim. Real disposable income per capita is about 5% higher than 1981. Still this represents little progress in 17 years.



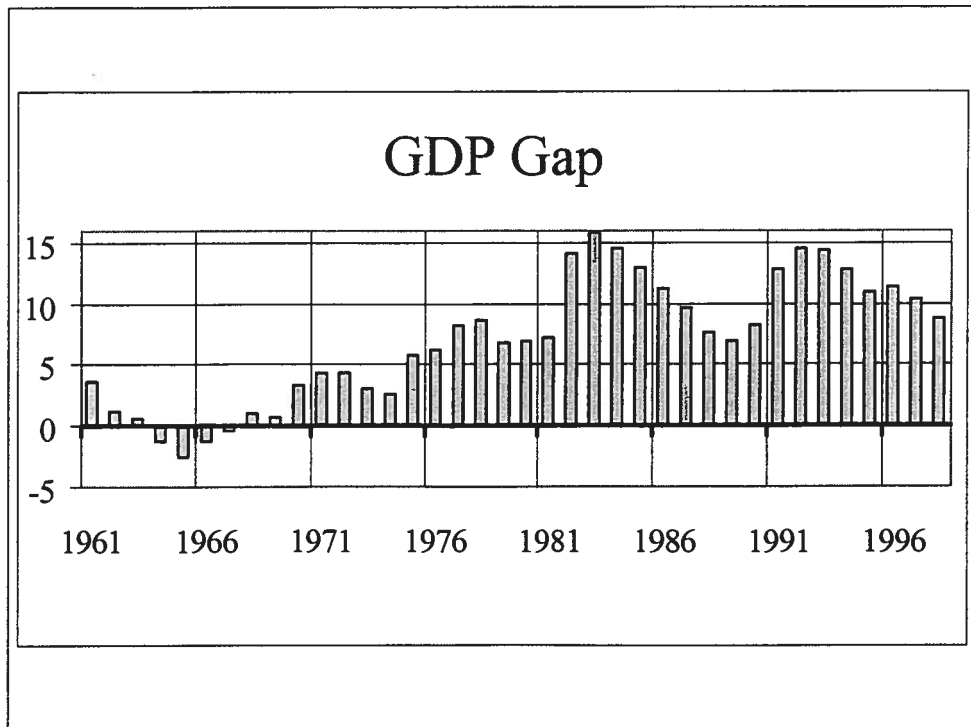
In some countries, there has been a noticeable increase in income inequality, both on a market income basis and after-transfers and taxes. In Canada, this is evident over most of this period, with modest improvements in the distribution of market incomes only during a vigorous recovery (1986-89). These changes have been so large that after-tax and after transfer incomes have also become more unequal. Some of this worsening is attributable to direct policy choices to reduce the coverage of unemployment insurance and to cut back on welfare payments.



A direct result of these policies has been a high unemployment rate since the early 1980s. Not only have rates risen relative to the performance in the 1950s, 1960s, and 1970s, but also relative to the US. In the 1981-82 recession, an unemployment rate gap between Canada and the US of about two percentage points opened up and was continued until the recession of 1990-92. During that recession the gap widened to four percentage points and has essentially remained that way to date.

This unemployment rate gap translates into an output gap of about 9 per cent or about \$80 billion in forgone output. Such an economic loss each year seems a high price to pay for low inflation.

Using a Canadian version of Okun's Law, a one-percentage point reduction in the unemployment rate requires about 2.5 percentage points growth in GDP.



Economic performance has reflected the combination of tight monetary policy and tight fiscal policy.

The output gap today is about 8.8% of GDP, down from 14.6% in 1992.

This translates into a loss of more than \$80 billion in 1998 in forgone output that could have been produced with the people and capital already on the ground.

A Prototype BI

- Universal
- Unconditional
- Not Taxable
- Basic Income of \$12,000 per year, Indexed
- Basic Package of Supplementary Health Benefits
- Children's allowance paid to responsible parent

Immigrants to be handled separately. Perhaps first three years under a separate program with training in language, cultural adaptation, etc. as part of a program. After three years immigrants expected to become citizens. If not, then **not** eligible for BI.

Adequate level for meaningful choices - \$12,000 per person, age 18 or over, independent of family status. Note that this provides an incentive for people to form a "family", but not necessarily to marry.

Children - covered by a BI payment to the mother (or person responsible for them) equal to the square root of (the number of children in the family/ the number of adults in family * \$12,000) in addition to their basic adult payments. Note that if a father leaves a family unit, then there is a partial increase in the payment to the mother.

Nontaxable, but personal income tax system simplified to eliminate personal credits, apply tax from first dollar of earned income.

Current transfer payments would be eliminated, including SA, UI, OAS/GIS, child tax credits, GST credits, etc. Substantial reduction in RRSPs and RPP tax exemptions would be appropriate, since people would have \$12,000 per year in income for life. CPP/QPP would remain in place since it is tied to work history and contributory payments.

Changes to Existing Programs

- Changes can be Optional
- Likely that governments would use the opportunity to recast many programs
- Incentives for participation (e.g., in re-training)
- Elimination of OAS and possible changes to GIS
- Tax system can eliminate most deductions and credits
- Reduce RRSP and RPP deductions (given universal income)

Usually proponents of Basic Income schemes elaborate on the elimination of many current programs and existing tax measures. But this is only done to show the “financability” of the BI.

Rather I suggest that governments will use the opportunity to review and change their programs. In some cases, they may wish to keep some measures in place, with modified levels or rules. In other cases, they may eliminate programs entirely.

One important change will occur. Whenever governments want people to participate in some program, they will have to entice them to do so, rather than requiring them. The existence of a BI will alter the power relationship between government, employers, and others in society.

The Issue of Power

- Sufficient Income to Not Work
- Significant Contributions in Marriage
- Increased Options for Raising Children
- Back-up Income to allow Voluntary Quits
- Option to Not Participate in Other Social Programs

The more I think about BI, the more I realize the importance of rebalancing the power between individuals in society and other organized groups such as employers, governments, businesses, and other members of society.

The power to say “NO”, even if it must be done quietly, is crucial to a sense of balance in relationships.

This rebalancing extends to the Household or family. Some independent income without a requirement for “workfare” or other “tests” should allow any person in a relationship to make a significant contribution to the functioning of the group, even if a paid job is not available.

Just Do It!

- Pick a Spot
 - Nunavut
 - Newfoundland
- Implement It
- Fine Tune as Necessary
- Announce Extension to all of Canada

The adoption of a BI is desirable. However, there is little likelihood of it being implemented without “experiments”, even though the full system is difficult to establish, particularly with regard to changes in other systems (e.g., tax rates)

For this reason, Nunavut with little cash income, low labour market participation rates, and a desire to seek a lifestyle more in harmony with the environment might find the idea of a BI attractive. This would obviously be up to the Nunavut government to decide.

In Newfoundland, fishers without hope of returning to the sea may be another target group interested in a BI approach.

The experiments would be focused on identifying any disincentive effects, alterations in power relationships, sense of economic security among the participants, sense of net costs, etc.

It would also be important to identify activities that people engage in to determine the effect on voluntary activity, child care, etc.

If experiments demonstrate that it works well, then the BI should be introduced with little delay.