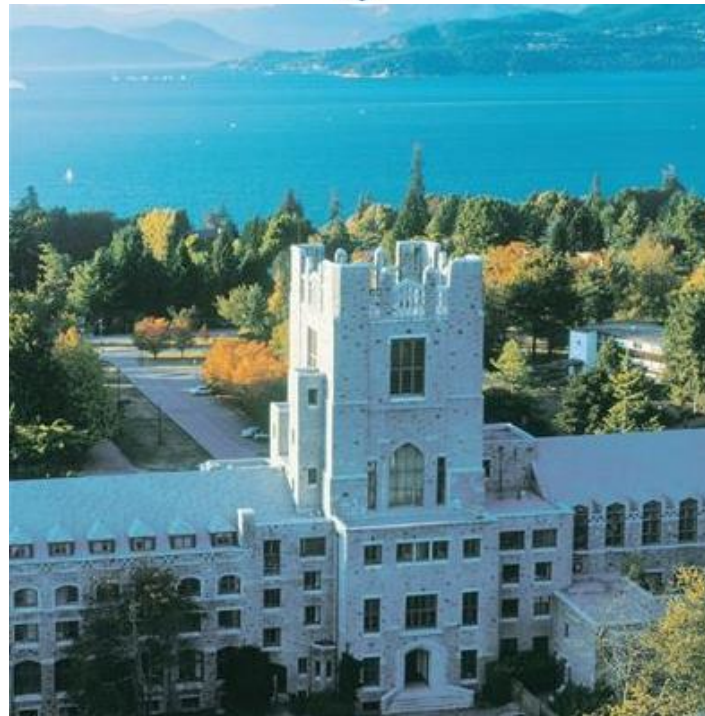


Delivering income transfers through “Basic Income”

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Question: Should we use “Basic Income” for income support?

1. Why do we get cheques from government?
2. What is “Basic Income”
3. What problem is this supposed to solve?
4. Costing of Basic Income Schemes
5. What ‘welfare’ really looks like
6. The Basic Income Impossible Trinity
7. Questions to ask about Basic Income proposals

Why do we get cheques from government?

1. Pure redistribution

Some care about shape of whole income distribution.

Some care about poverty alleviation: efficiency and equity

2. Insurance

Because of adverse selection, insurance markets sometimes fail.

- E.g. employment insurance.

Public mandated participation can overcome the problem.

3. Behavioural realities

Saving is hard. We might prefer to use government as ‘commitment device’

The 'Single Tax' of Henry George (American, 1839-1897)

What Georgist 'single taxers' advocated:



- Fixed supply of land belongs to 'the people'.
- Land value should be taxed; *some advocate handing it out to all citizens as 'basic income'.*
- This single tax is preferable to taxes on productive activity.
- Opposed tariffs; all that is needed is land value taxation!
- Georgism mostly died out in 20th century, but seems popular on the internet. They have conventions, factions, and like handing out pamphlets on street corners.

Today...

Benoît Hamon, Socialist Party candidate for President...

Pour faire battre
le cœur de la France

**Le Revenu
Universel
d'Existence**



In Canada, Guy Caron federal NDP leadership candidate:

The screenshot shows the top navigation bar of the Guy Caron website. On the left, the name "Guy CARON" is displayed in white, with "FOR NDP LEADERSHIP • À LA DIRECTION DU NPD" underneath. To the right are three buttons: "Email", "Postal", and "SIGN ME UP".

Below the navigation bar, on the left side, there is a vertical menu with three items: "PRIORITIES" (with "BASIC INCOME" listed below it), "Join us" (with a checkmark icon), "Donate" (with a checkmark icon), and "Get updates" (with a plus icon).

On the right side, there is a large banner image featuring a crowd of people. Overlaid on the image is the text "Let's make BASIC INCOME happen" in white and blue.

What is “Basic Income”?

People seem to have many very different ideas in mind, but three key questions for any design:

1. Basic transfer: how much?
2. Phase-out rate: payment decreases with income or not?
3. Does this new program replace all existing government spending? Just the income supports? Some income supports?

Universal vs Income Guarantee

Characterize the different models by degree of income phase-out.

Phase-out rate

Model

0%

Universal Basic Income

25%

50%

100%

Minimum Income Guarantee / Income top up

Important insight:

UBI vs MIG: these are very different programs and we shouldn't treat them as the same.

What problem is this supposed to solve?

There are many claims:

- Relieve poverty → can deliver improved outcomes.
- Improve work incentives → Remove ‘welfare wall’ of current system.
- Decrease bureaucracy → indignity and waste

But...

- Not a great replacement for social insurance like EI or CPP.
 - Doesn’t provide much insurance for middle earners.
 - Unless deftly designed, could make many worse off.
- Can we realize all these goals at once?

How much would a universal basic income cost?

- Say, \$15,000 per person for basic transfer. (Makes some worse off!)
- We are 36 million people.
- Cost of \$540 billion, or ~27% of GDP.
- Total federal government revenue in 2015-16: \$296B.
 - Prov/Terr own-source government revenue in 2015-16: \$302B

Does anyone really advocate this universal model?

- Yes. It's all over the internet and in op-eds, often without any basic math.
- Or, see a paper by [Periera \(2015\)](#) arguing how to pay for a \$392B Basic Income by raising taxes and cutting spending.
- Or, see Abdelkrim, Duclos, and Blais ([2005 L'Actualité économique](#))
- Or, see [CCPA 2009](#) study which costs universal model.

How much would a minimum income guarantee cost?

Using 2010 Survey of Labour and Income Dynamics (old data!):

Topping up all families to the low-income cutoff.

- About \$32B in 2010 \$.

Giving \$15K per adult as minimum income guarantee

- About \$63B in 2010 \$.

Questions:

- Of course, this model has 100% tax on labour market earnings, so there are efficiency questions....
- How is this different from bigger social assistance cheques? Is this really what people mean when they say “basic income”?
- Of course, could have different amount for kids, or different basic transfer.

Funding Basic Income

What if we cancel some existing income transfers?

Social assistance	\$15B
Child Benefits	\$25B
Employment Insurance	\$21B
OAS/GIS	\$48B
CPP/QPP	\$42B / \$14B

If you totaled all this, you'd get something like \$165B.

What if we raise taxes?

GST per point	~\$6B
Corporate income taxes	~\$2B per point, assuming static profits.
Total <u>untaxed</u> income over \$250K	\$96B (2013)

Can we save on ‘bureaucracy’?

What does ‘welfare’ actually look like? Ontario Public Accounts...

OPERATING EXPENSE

Financial and Employment Supports (Item 3)

Salaries and wages	166,789,074
Employee benefits	28,015,193
Transportation and communication	10,818,737
Services	76,363,083
Supplies and equipment	1,838,814
Transfer payments	
Ontario Disability Support Program – Financial Assistance	4,382,504,023
Ontario Disability Support Program – Employment Assistance	44,414,738
Ontario Works - Financial Assistance	2,377,477,068
Ontario Works – Employment Assistance	188,786,379
Ontario Drug Benefit Plan	1,035,298,204

	8,028,480,412

	8,312,305,313

Administration:
\$284 Million

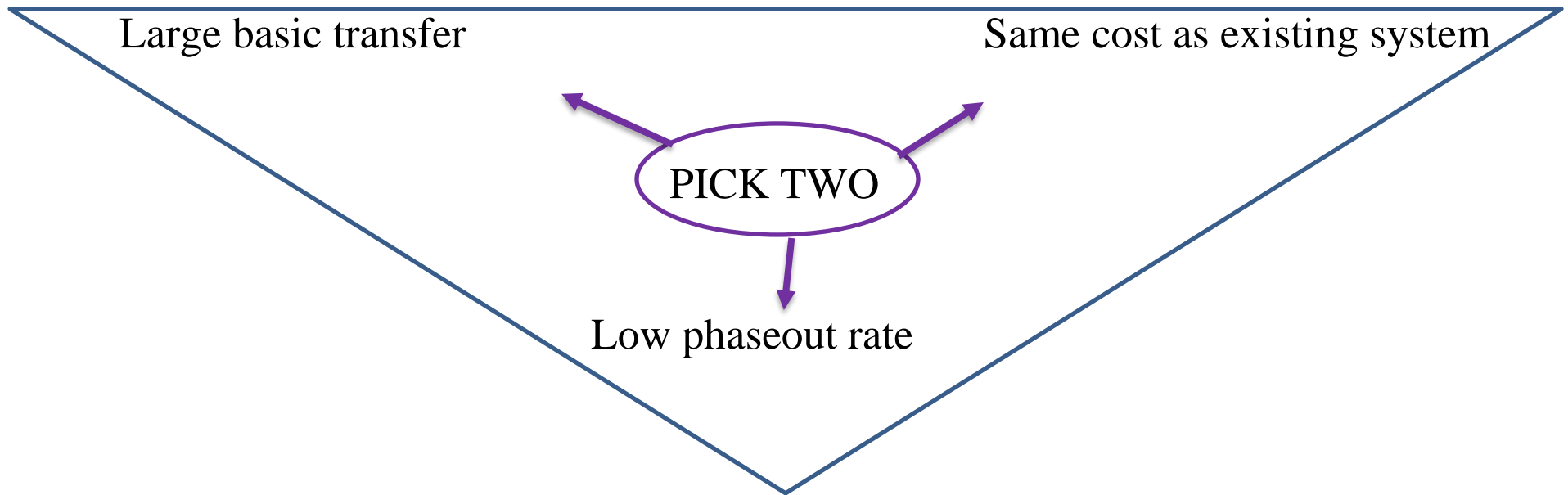
This is \$20/Ontarian.

Benefits:
\$8.03 Billion

This is \$575/Ontarian.

The Basic Income Impossible Trinity

You can choose only TWO of these three features:



Policy example that respects the trinity: Simpson and Stevens

Wayne Simpson and Harvey Stevens

University of Calgary School of Public Policy Research Paper

Proposal: Make non-refundable tax credits refundable.

Some details:

- Transfer size: Averages \$1,436 per low-income taxfiler
- Phase-out rate: 20% above $\frac{1}{4}$ of LICO
- Additional cost: \$7.23B

Should we do this? It is worthy of debate because they have a realistically-costed plan.

2nd Policy example: Boadway, Cuff, and Koebel

“Designing a Basic Income Guarantee for Canada”
Queen’s Economics Department Working Paper No. 1371

Proposal: 20K per (adjusted) person; phased out at 30%.

- Split Fed/Prov.
- Cost of \$165B.
- Funded by cancelling OAS/GIS/CCB/GST Credit/WITB/Most non-refundable tax credits (including Basic Amount).
- They model reasonable estimates for behavioural labour response.

The good: Reduces low-income rate from 11.9% to 3.2%!

The bad: seniors’ poverty up by 165%; middle income **reduced** by 9-11%!

- This would cost about **\$50B** to ‘fix’ so that no one loses...

Very useful to have a fully-costed model to talk about: both the good and the challenges.

2nd Policy example: Boadway, Cuff, and Koebel

Table 2: Impact of BIG on Family Disposable Income by Family Net Income Decile, 2015

Decile	Average BIG	Average Family Disposable Income			% Change in Disposable Income	
		Pre-BIG	Stage 1	Stage 2	Stage 1	Stage 2
Bottom	\$20,353	\$8,868	\$19,422	\$23,690	119.01%	167.14%
Second	\$18,054	\$14,709	\$21,334	\$25,578	45.04%	73.89%
Third	\$15,504	\$21,308	\$25,263	\$28,623	18.56%	34.33%
Fourth	\$12,540	\$28,253	\$29,370	\$32,581	3.95%	15.32%
Middle	\$8,420	\$36,123	\$33,792	\$36,151	-6.45%	0.08%
Sixth	\$3,569	\$45,254	\$40,628	\$41,085	-10.22%	-9.21%
Seventh	\$712	\$55,474	\$50,151	\$48,486	-9.60%	-12.60%
Eighth	\$0	\$71,013	\$65,604	\$63,125	-7.62%	-11.11%
Ninth	\$0	\$92,725	\$87,427	\$84,764	-5.71%	-8.59%
Top	\$0	\$175,961	\$171,009	\$166,479	-2.81%	-5.39%
Aggregate	\$7,912	\$54,982	\$54,411	\$55,066	-1.04%	0.15%

Source: Statistics Canada, Social Policy Simulation Database and Model (SPSD/M). Version 22.1. Tabulations by authors.

Watch for these dubious claims...

“Both left and right agree...”

- ‘right’ likes low phaseout rates; ‘left’ high transfers.
- Can’t do both at once---beware the impossible trinity!

“Increasing transfers to low incomes boosts health etc.”

- Does the proposed transfer actually boost low incomes? Or is most of the money going to middle and high earners?

“Can pay for it with some simple changes...”

- How ‘simple’ are those changes to enact? E.g. CPP/OAS. E.g. disability. E.g. fed-prov issues.
- Even if we could raise the money, would Basic Income be the best way to spend it?

Questions to ask about any Basic Income model

1. The basics: transfer and phase-out rate.
2. Are you canceling existing transfers? Which ones?
3. Will anyone be made worse off?
4. Have you costed the model?
5. How will you raise \$X Billion in new tax revenue?
6. What is the gain of raising \$XB in new taxes to hand out cheques to middle and high earners?

Beware of the 'magic asterisk'

