

## CONSIDERATIONS FOR BASIC INCOME AS A COVID-19 RESPONSE

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### SUMMARY

When the federal government created the Canada Emergency Response Benefit (CERB) to help Canadians who had lost their jobs in the COVID-19 lockdown, it sparked renewed interest in the idea of a basic income. However, many policy questions need to be discussed and resolved in order to assess a basic income and compare it to alternative forms of social support. Careful and thorough consideration of these matters is vital in deciding whether a basic income should be implemented, and if so, how it should be done and indeed what form it should take.

Providing a basic income to every Canadian is not simply a matter of the government sending cheques on a regular basis. Implementing a practical form of a basic income involves considerable complexity – complexity that becomes clear upon examining the full range of basic income approaches and the questions they raise. The authors of this brief currently serve as experts on a B.C. government panel that is assessing the desirability and feasibility of a basic income in that province. We have come up with a series of questions that must first be answered in-depth in order to assess a basic income program or alternative reforms to achieve some of the same goals.

The principles of a basic income program must be defined. Social justice, transparency and simplicity are at the root of such a program, but choices about design and implementation can conflict with these principles. Objectives must also be defined, and these can involve poverty reduction, societal reform and/or the changing nature of the labour environment.

Choices for design range from a universal basic income to a refundable tax credit. Designs delivered through the tax system pose another set of logistical problems, which can include changes to the system itself, difficulties in

administration and accessibility, responsiveness to changing needs and whether there should be conditions on eligibility. Among the decisions to be made about benefits are their amounts and whether they would be fixed or variable. A key issue is whether people with disabilities would receive a higher level of support and how this would be handled under a basic income.

Another important factor is how a basic income would mesh with existing income and social support programs, including provincial social assistance and varied social services and in-kind benefits. The multiple potential impacts of a basic income such as budgetary cost and incentives for a wide range of behavioural changes must be considered across the entire system of taxation, transfer and spending programs.

Other issues to consider include whether the income would be paid to individuals or to households; how the homeless population would access their payments; how often payments would be made; how the tax system would treat the payments; how the basic income program would be financed; whether payment amounts would change based on a change in recipients' circumstances; and whether a basic income is the best way to address social inequities.

We raise these questions not out of a desire to create barriers to the consideration of a basic income as a policy tool in the Canadian context. Rather, we see them as part of taking a serious policy option seriously. The answers are crucial in order to create a system that is effective, practicable and widely accepted. Canada needs an evidence-based discussion on the needs for designing and implementing policies that will provide the best route to creating a more just society. That is a goal that extends across the political spectrum.

## INTRODUCTION

As part of the 2017 Confidence and Supply Agreement (CASA) between B.C.'s Green and New Democrat caucuses — which forms the basis of the Green caucus's confidence in the NDP minority government — the B.C. government developed a detailed plan to reduce poverty in the province (BC NDP Caucus 2017). The first step in this commitment was to adopt the *Poverty Reduction Strategy Act* (SBC 2018), which set out the requirement to develop a strategy to reduce and prevent poverty in B.C. and to update it at least once every five years. The act outlines that the plan must include initiatives to reduce the poverty rate by 25 per cent among all persons and 50 per cent among children by 2024 as compared to 2016. B.C.'s first Poverty Reduction Strategy was developed through an extensive public engagement process and was released in March 2019 (Province of British Columbia 2019).

A second step outlined in CASA was to investigate whether a basic income would be an effective policy tool to meet the legislated poverty reduction goals. To investigate this, the government of B.C. formed an expert panel (B.C. Poverty Reduction 2018). We, the authors of this brief, were appointed as the members of this expert panel on July 3, 2018, by the B.C. Minister of Social Development and Poverty Reduction (SDPR). As experts in social and tax policy, we were asked to help the province of B.C. not only assess the feasibility of a basic income in B.C., but also investigate how basic income principles might be used to transform and enhance the existing income support system. We focused particularly on the impacts on the incidence and depth of poverty in B.C., using the Poverty Reduction Strategy as the baseline. We are nearing the completion of our two-year task, expecting our final report to be completed later this year.

One reason we were given two years to complete our task is that, despite the basic income concept having a long history, we found a complex web of competing evidence of varying quality that does not provide definitive answers to most of the questions that need to be addressed. Our approach to the task has been two-pronged: to undertake a public outreach process, and to co-ordinate a comprehensive research agenda related to basic income in the context of the B.C. income and social support system. Our research program consists of over 40 research papers commissioned from over 40 Canadian researchers located at universities and institutes across Canada plus a few located abroad. While we each are contributing personally to the research program, the breadth of the research questions needing to be addressed required a wider range of expertise and perspectives than we could provide. These research papers provide that wider perspective and will be made public along with our final report.

While interest in a basic income is not new, with federal and provincial political parties, including the Greens, NDP and Liberals proposing basic income schemes for decades, interest has built in recent years. In addition to our panel, Prince Edward Island has also struck a special legislative committee on poverty that is exploring the feasibility of a basic income (Legislative Assembly of Prince Edward Island 2019). Public and media discourse about basic income has been further enhanced recently by Andrew Yang's run for the U.S. Democratic presidential nomination, largely on a basic income platform (Yang 2020). In addition, there has been an outpouring of support over the past several weeks from a wide range of advocates in Canada and abroad, representing the full

political spectrum from right to left, for use of a temporary or permanent basic income as a coronavirus pandemic response. Many are pointing to the Canada Emergency Response Benefit (CERB) as an effective tool in the ongoing pandemic crisis and advocate for it to be made permanent and available more universally — that is, made into a form of basic income. On April 21, 2020, 50 members of Canada’s Senate advocated that the federal government restructure the CERB, ultimately using it as a stepping-stone to a permanent “minimum basic income” (Lankin and Pate 2020). The Anglican Church of Canada (2020) has also joined the call for a guaranteed basic income for all Canadians.

However, in the current vigorous debate, it is our view, based on nearly two years of work on the topic, that crucial considerations are being swept aside as some commentators — both advocates and critics of a basic income — depict it in simple terms. Advocates often argue that its advantages are in its simplicity and opponents argue that it is too simplistic. Neither turns out to be true. Implementing a basic income is not simple. There is a need to carefully consider the details of a basic income to avoid simply creating a cash transfer program that is neither consistent with the guiding principles of a basic income nor able to achieve the desired objectives, which themselves need to be determined. A basic income is also not a single, uniform policy, but rather a range of policy proposals with multiple design details that need to be selected and reconciled with the principles and objectives of a basic income. Unless one is advocating for the elimination of all existing systems, it is also essential to consider how the basic income interacts with the existing system, and even what parts of the system would remain, not the least of which pose complex fiscal federalism considerations.

Our goal in this piece is to set out the key questions that we have encountered in our research into a basic income that can actually be implemented and achieves its intended objectives. Our hope is that those questions will provide the reference points necessary for a mature debate about this important policy option. We want to emphasize that we ourselves have not yet come to firm conclusions or formulated recommendations and this note does not take any position on basic income. The purpose of this note is not to support or oppose basic income as a public policy choice. Rather, our message is that the design and implementation of a basic income is much more complex and challenging than might appear at first glance, and that it requires careful, comprehensive, evidence-based consideration. Since many of the same considerations apply to any basic income proposal, whether implemented across Canada or in a single province, we offer a set of questions that we believe must be answered in deciding whether and how to implement a basic income, or any alternative social support policy.

## **QUESTIONS**

One of the most attractive features of the basic income concept is that it is simple, making it easy to understand and access. That might seem to imply it would also be simple to design and implement. Our work has made us acutely aware of the fact that a basic income’s apparent simplicity for users belies a complexity that only becomes clear as one looks at the full range of basic income approaches and the questions they raise related to (among others): what principles guide the policy; what the policy is intended

to achieve; exactly how the policy would be designed and implemented; what trade-offs would be made; how costs and benefits would be distributed; how behaviour would be changed; and what would be the effects on, and interactions with, the existing tax and transfer systems.

We offer the following questions — which are among those we are asking ourselves as we consider basic income and alternatives — to help the debate focus on the many points that must be addressed in order to decide whether a basic income is the most desirable and practical approach:

1. What overarching principles define a basic income policy? While a basic income is a cash transfer, it is more than that. A basic income is intended to be humanizing and it is about social justice. It embodies the power of fairness and simplicity while respecting that beneficiaries have the right to dignity, subsistence, security and the freedom to make choices. However, design and implementation choices can be at odds with some of these principles, so the question becomes how do these choices square with these principles and what trade-offs should be made among the principles?
2. What specifically is the objective? Support for a basic income comes from a variety of outlooks but three are key:
  - a) inclusion and poverty reduction, including reducing the rate and depth of poverty and breaking the cycle/intergenerational transmission of poverty;
  - b) reforming society in general, the economy more specifically and the labour market even more specifically in the face of perceived changes in the nature of work; and
  - c) simplifying the transfer system to make it more accessible, more effective and more respectful of those who need support, whether that need be temporary or permanent.

Since the three outlooks overlap to some extent, the question is the relative weight to place on each.

There are many design elements, some of which are detailed below, that would need to be decided in detail to fully specify the optimal form of basic income. Unless one knows specifically what is to be achieved, it is impossible to choose the best approach and to make the multiple trade-offs those choices represent. That applies equally to designing a basic income and to considering alternative reforms and enhancements to existing programs.

3. What are the details of the BI program design?
  - a) Is the basic income to be a universal basic income, a negative income tax or a refundable tax credit?

These are the three main types of basic income that have been proposed. Universal basic income is a regular cash payment to all those eligible. A

negative income tax is a regular payment made through the tax system to eligible tax filers that depends on the current level of income, thus requiring a fundamental change to income taxation to a monthly from an annual basis. A refundable tax credit is a monthly payment to eligible tax filers delivered through the tax system where the benefit amount is usually set for a year based on the previous year's income.

The three options have distinct characteristics in terms of administration, accessibility and responsiveness. A universal basic income requires information about all eligible recipients and an agency with access to that information to deliver the program. Since not all members of Canadian society file taxes every year, that does not currently exist in Canada. This is obviously a particular concern with respect to those with the least income. Refundable tax credits or a negative income tax would presumably be delivered by the Canada Revenue Agency (CRA). But, again, not all members of Canadian society file taxes. In addition, implementing a negative income tax would require a fundamental change in income taxation from an annual to a monthly basis. Thus, answering which form of basic income is to be considered requires answering a set of accompanying questions about whether to create a new mechanism or how to reform the current system to deliver it.

- b) Is eligibility for, or the amount of, the benefit conditional on technical conditions (e.g., age, income, assets) and/or behavioural conditions (e.g., work search)?

An unconditional basic income does not impose conditions for eligibility: anyone can receive the benefit regardless of income, assets or employability, and they do not have to adhere to any behavioural condition (e.g., actively looking for work). On the other hand, a conditional basic income imposes conditions that restrict eligibility in whole or in part. Even strong advocates of a universal basic income have supported some such conditionalities, while overly simplistic critics look past those statements and criticize the basic income for being too widely distributed.

In terms of technical conditions, would the basic income cover all persons or be limited to, for example, people in the 18-64 age group, leaving existing income support programs for children and seniors in place? Depending on the jurisdiction implementing the basic income, there could also be residency conditions, for example. If the basic income is to be conditional on income, what definition of income and/or assets would be employed for either the purpose of eligibility or the calculation of the benefit amount? Income and assets can be defined in a myriad of ways leading to different degrees of complexity, stigma and behavioural outcomes.

A behavioural condition, in contrast, requires that a beneficiary undertake some qualifying activity in order to receive the benefit, often considered as a form of reciprocity. For example, a participation income (a variant of a basic income) is paid to recipients only if they are involved in activities that are

deemed to have social value (education, training, caring for young, elderly or disabled dependents, volunteering, etc.).<sup>1</sup> Although rarer in a developed-country context, benefits targeting families with children could also be conditional on desirable activities like sending children to school or having them vaccinated.<sup>2</sup> The Manitoba Green Party, in its 2019 platform, imposed a behavioural condition of filing two consecutive tax returns in its proposal for a basic income (Green Party of Manitoba 2019).

Those engaging in the debate about a basic income, both proponents and opponents, should state clearly what conditionalities they include when defining a functional basic income and how these conditionalities draw on the principles of a basic income.

- c) How would the basic income treat those with a disability?

Disability affects both the ability to earn income and the cost of living. Existing programs targeting those with disabilities are a complex and inconsistent web of supports. Proponents of a basic income nearly all agree that special extra payments are needed to enable people with disabilities to fully recognize their goals in society. That such conditionality is necessary is not a reason to reject a basic income, as some critics suggest. However, a full description of a complete system incorporating a basic income must explicitly state how those with a disability would be identified and treated. Most importantly, it needs to detail how eligibility will be considered in a way that fits with the goal of dignity for all. Neither side in the debate should set these issues aside for future consideration, as often seems to be the case.

- d) What is the amount of the benefit, and are benefits uniform or variable?

How does the maximum benefit relate to measures of poverty, especially the Market Basket Measure (MBM) threshold, which varies geographically depending on cost of living? This question raises issues about costs, incentives and labour supply as well as valuing what we owe each other.

- e) How does the basic income interact with existing income and social support programs, especially provincial income and disability assistance?

A realistic proposal for a basic income cannot be expressed without explicitly addressing this question. The existing system is itself complex and difficult to understand in every province and different in every province. Would a basic income replace some or all of these programs and how would it interact with remaining programs? Considerations such as cost, behavioural changes and impacts of the basic income must be considered for the whole system, not limited to a partial analysis of basic income alone.

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<sup>1</sup> Participation income was proposed by Atkinson (1996) and endorsed by Osberg (2018).

<sup>2</sup> For example, Australia reduces the Family Tax Benefit for each child who does not meet immunization requirements. See Abedi (2018).

f) How are recipients identified?

While it sounds easy to say that everyone who qualifies would simply receive a payment, that might not be so easy in a country where there is no central register of personal information. The tax system is an often-mentioned option, but a large proportion of the population is not required to file taxes in a given year and some face barriers to filing. Alternatively, those not registered in the tax system or elsewhere could apply for benefits under a basic income, but how would this system work to engage the most vulnerable groups?

g) To whom would benefits be paid: individuals or families/households?

This question gives rise to important gender impact considerations. It also involves making decisions on important complexities such as whether the benefit is paid on a per capita basis or recognizes scale economies of families, whether benefits are based on joint or individual income and how exactly one defines a household and/or family. Modern family formation is complicated and some family formations are non-standard. Auditing what a family is and when it is formed potentially brings in stigma and complexity to the system, which is at odds with the principles of a basic income. Again, these are not issues to be addressed later. They are fundamental in determining what a basic income would do, who it would help and how much it would cost.

h) Would recipients require a bank account to receive benefits and, if not, how would benefits be delivered to the unbanked, under-banked and/or those dealing with homelessness?

These individuals are particularly difficult to identify and to provide payments to, but they are among the most vulnerable groups. Related issues concerning financial literacy also arise here.

i) How often and when would payments be made?

The choices made about these questions can have significant implications for the recipients' economic security and thus the ability to achieve a given objective. For example, are monthly payments the best option for all individuals, especially those deep in poverty, and do some who have had a catastrophic life change, like those escaping intimate partner violence, need a lump sum payment to help in getting onto a new life path?

j) How would the tax system treat the payments received? Would there be an associated significant income tax system reform? Would there be changes to existing non-refundable or refundable tax credits? Would the tax base or tax rate structure change?

Most negative income tax/refundable tax credit approaches that have been proposed include a so-called claw-back rate or benefit reduction rate, at which the benefit is reduced by other income, ranging from zero per cent (universal

basic income) to 75 per cent. This rate significantly affects effectiveness, cost, incentives and fairness.

Setting a benefit reduction rate also requires that income be defined for that purpose. The tax system already uses several different income definitions for different purposes, as do different indicators of poverty and various non-tax income and social support programs. The definition of income can also impact effectiveness.

With respect to financing a basic income, some proposals envision all existing tax credits to be repackaged into a basic income, making the basic income revenue neutral. In other cases, the basic income is proposed to be financed through the redistribution of economic rents or resource rents, or through a carbon tax. Still others call on raising tax rates on existing tax sources, enacting wealth taxes, eliminating programs, or through savings that are expected to occur through the reduced use of the health or justice systems. Any radical changes to the tax system or program spending would have to be carefully considered on the basis of their costs and benefits.

- k) How would the basic income be integrated into Canada's system of fiscal federalism? Would a basic income be created at the provincial level if a province doesn't want to wait for the federal government, or is this really only feasible in conjunction with a federal policy?

Significant intended and unintended consequences for fiscal federalism could arise depending on the design. There is potential for the effectiveness of a basic income to be reduced if offsetting federal provincial transfers arise (e.g., if a federal basic income reduces income and social support program costs in a province), depending on what the objective is.

- l) Will the basic income be responsive to changes in circumstances and, if so, how will information about changes in circumstances be captured and used to change the benefit provided? Would that require previous overpayments to be recovered and, if so, would that affect the program's ability to achieve stated goals?

For example, the tax system generally collects information on tax filers only annually. Greater responsiveness than that would be required to achieve most of the objectives suggested above, and that would require administrative changes to collect income information on a more frequent basis, such as monthly. If the basic income is large enough and paid universally, then it might be seen as sufficient as a backstop when a household's other income sources fail. In that case, the payments might not have to be responsive to changes in circumstance, but it would be very costly to fund payments large enough to negate the need for responsiveness. How will effectiveness in meeting the objective(s) be measured?

What specific information would be needed to determine how effective the basic income is in practice at achieving the stated objectives? Since a basic

income would be a major new initiative, information will be needed to refine the program over time to improve effectiveness.

m) How will the changes and what they mean to people be communicated?

Depending on exactly what type of basic income is proposed and the detailed design decisions made about both the basic income and how it interacts with other income and social support programs, the effects on individuals could vary considerably depending on individual circumstances. How will that be communicated in a way that helps those affected make rational, informed choices as a result? We have observed that often improvements in existing programs are not fully successful because users do not know what's changed or how it affects them.

4. What is the cost of the program and what, if any, other tax and benefit program changes would be made to finance the program?

Many basic income proposals are intended to be fully revenue neutral or to offset a significant part of the cost of a basic income through elimination of other costs to government. Details of what those changes are, how they would be implemented, and what groups will bear the burden of funding the basic income need to be specified. Because reasonable basic income proposals do not envisage wiping out the rest of the tax and transfer system, how a basic income is integrated with the rest of the system is crucial to determining its effects. That means one cannot separate discussion about the design of the payment elements of a basic income from discussion about its financing. Proponents cannot simply put the discussion of funding off for later and critics cannot simply do back-of-the-envelope calculations on total costs. It is not worth discussing proposals or evaluations on one side or the other that do not directly address the benefit payments and the funding at the same time.

This area is also likely to carry fiscal federalism implications and considerations, especially if the changes involve a significant reform of the personal income tax system. For example, in all provinces other than Quebec, the CRA administers the tax system not only on behalf of the federal government, but also the provincial governments. The rules regarding this relationship are set out in the tax collection agreements, which set limits on what the provinces can do through the tax system. If significant reform of the tax system is needed, then all parties in this relationship need to agree, with the federal government having a fairly powerful veto power. If a province wanted to make significant reforms to the tax system to which the federal government would not agree, then the province does have the option of opting out of the tax collection agreement and establishing its own tax system, as Quebec has done. However, this process would take several years to undertake and roll out and would be unlikely to be greeted by the public.

5. How would the introduction of a basic income, together with any consequential changes to other programs, affect the behaviour of individuals, employers

and other actors in the economy? And how would the anticipated behavioural impacts affect budgetary cost, program participation, labour markets, wages and occupational patterns, and intra- and interprovincial migration?

Addressing this question requires consideration of:

- a) Are there current behaviours induced by the system that basic income is intended to change?
- b) Are there behavioural changes that the basic income is intended to encourage?
- c) Viewed from a system perspective taking all of the changes and interactions in the income and social support system into account, what unintended behavioural changes can be foreseen and, if necessary, how could they be mitigated?

The types of behaviours of interest here include decisions relating to activities such as caregiving and volunteering, work and participation in the labour force, occupational and job choice, education and training, entrepreneurship, family formation and dissolution, fertility and geographic mobility, among others. Whatever basic income design is chosen, the program's impacts will be felt differently by different people, and it is important to understand these different effects across the population and across regions.

6. Is a basic income the best way to achieve the stated objectives, or are there alternative programs or other reforms that could be made that could achieve similar objectives?

Many commentators have argued that this crisis provides an opportunity to consider a policy shift as radical as a basic income. But there is no reason to limit the discussion of alternatives to a basic income. It is possible that other approaches could better achieve the goal of making Canada a more just society. Among the alternatives that should be considered are both fundamental reforms of the structure and operation of existing programs and enhancements to the current system. Examples include federal or provincial earnings supplementation programs (like the Canada Workers Benefit and similar provincial programs) and the use of a basic services approach (as opposed to a basic income approach) to achieve the stated objectives. Further, the provincial income and disability assistance programs could be reformed in a myriad of ways to move them closer to a basic income.

Such approaches might also seek to meet the spirit of a basic income in terms of supporting well-being with dignity for all, but do so in a different form. A full debate should consider a basic income as an important potential policy tool but also contrast it with other approaches.

These questions demonstrate the myriad interconnected policy issues that need to be taken into account, whether proposing a basic income or considering other major income and social support system reforms. As noted above, in most cases there is no definitive

evidence that can be relied upon to help craft the best policy response. In large part, our work has been to better understand and, where possible, improve the available evidence, and to apply it to develop an informed and objective set of responses to these questions. As yet, decisions about basic income would be premature.

## **CONCLUSION**

The current crisis has served, in part, to highlight how interconnected we all are. The importance not only of doctors and nurses but of grocery store workers, truck drivers and caregivers is on clear display. Canada and the provinces have responded in that spirit with policy tools aimed at helping everyone keep their heads above water. The combination of the recognition of common cause and the effectiveness of policies like CERB has raised the profile of a basic income as a serious policy option. Our goal in this note is to assist in the debate over a basic income by highlighting the extent and nature of the complexities of the real-world policy choices. We did that by setting out a long list of some of the questions that need to be answered to generate a desirable and implementable form of a basic income. When our report, and the considerable research that underlies it, is released, we hope that it will help flesh out answers to the questions posed here.

We recognize that some people will view the very act of listing the complexities underlying implementation of a basic income as taking a stance against it. That is certainly not our intention. In our view, taking a basic income seriously as an option means having an evidence-based discourse about how one would both design and implement it. Simple claims about the simplicity of a basic income on one side and simplistic characterizations of what proponents of a basic income are setting out on the other side do not move us toward the goal of building on what has been both revealed and achieved in this crisis to create a more just society.

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