International Perspectives on Guaranteed Annual Income Programs

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ABSRACT

Addressing the issue of poverty in Canada is an important challenge to policymakers. Establishing an income floor below which no citizen falls is a critical public policy goal for the Canadian welfare state. In responding to this policy issue, recent debate has revolved around a guaranteed annual income (GAI), defined as a basic income paid by the government to all citizens on an individual basis, without means test or work requirement. The purpose of this paper is to analyze past and present GAI programs to inform the public policy debate on the implementation of a GAI in Canada. Among the factors under consideration are the program's efficiency in targeting payments, as well as its effect on family structure and labour force participation. On an implementation level, the paper also explores the potential for introducing a GAI through a negative income tax. It is also important to note, however, that relatively few GAI programs exist currently, and those that do, often are not sufficient alone in providing income maintenance to citizens.

The Challenge of Addressing Poverty

Addressing the issue of poverty in Canada is an important challenge to policymakers. One problem is agreeing on a single definition, since poverty is a relative term. While most poor Canadians would be considered rich by the 'dollar-a-day' definition that is used widely in the developing world, relative poverty is still prevalent in Canada. According

to UNESCO, marginalization occurs when individuals are "systematically excluded from meaningful participation in economic, social, political, cultural, and other forms of human activity in their communities and thus are denied the opportunity to fulfill themselves as human beings."[1] In 2007, in the province of Ontario, a couple with two children would receive $21,058 on welfare.[2] This figure is $19,201 less, or 52 percent less, than the before-tax low-income cut-off (LICO) income of $40,259 that is considered to be adequate for a family of four by Statistics Canada.[3] In terms of the market basket measure (MBM), the same family would be expected to survive on their welfare of $21,058, which is still $11,854 less than the MBM poverty line of $32,912.[4] Although these measures provide quite different definitions of poverty, in either case, these individuals are living in relative poverty and face marginalization in terms of their inability to fully participate in society.[5]

There is a wealth of academic research on the issue of poverty; however, there has been little consensus on ways in which to eliminate this public policy issue. This lack of consensus has led to a championing of incrementalism as a result of the view that poverty is a complex issue that cannot be solved by one single policy.[6] In a recent speech at Queen's University, Hugh Segal (2009) forcefully articulated that:

> [p]overty is not a result. Poverty is not an outcome. Poverty is a cause. And, unlike the other [policy] challenges… – substance abuse, low health status, low birth weight – we actually have the policy instrument within the federal jurisdiction to solve poverty: not dilute it, mitigate it, improve upon it, but actually solve it.[7]

This solution that Segal eloquently discusses is a guaranteed annual income (GAI), defined as a basic income paid by the government to all citizens on an individual basis, without means test or work requirement.[8] According to Van Parijs, a GAI would be paid in cash, on a regular basis at the nation state level to all citizens of a country, essentially ensuring that no Canadian would fall below this basic income threshold.[9]

Recent debate surrounding a GAI in Canada has been widespread. Establishing an income floor below which no citizen falls is a critical public policy goal for the Canadian welfare state.[10] While a GAI theoretically seems like a worthy policy goal to pursue, it is important to look to GAI (and other similar) programs that have already been established. During the 1970s, in Manitoba, the Manitoba Basic Annual Income Experiment (Mincome) proved to be a useful experiment to test the effects of a GAI.[11]

Although this provides a relevant Canadian example it is also useful to look to the international community to inform our policy discussion surrounding the relative strengths and weaknesses of GAI programs in other countries and to provide valuable lessons to the Canadian context. It is also important to note, however, that relatively few GAI programs exist currently, and those that do, often are not sufficient alone in providing income maintenance to citizens. Despite the relatively few examples, there are still lessons that can be applied to Canada when considering the merits and drawbacks of a GAI.

The purpose of this paper is to analyze the main benefits and weaknesses of past and present examples of GAI programs to provide insight into a Canadian GAI policy. Supporters of the GAI note the following benefits, including its objectivity in determining eligibility for the GAI, the avoidance of stigma associated with traditional welfare programs, the program's efficiency in targeting payments to low-income individuals and the possibility of introducing the GAI through a negative income tax into the already existing income tax system, as well as downstreaming benefits, in the form of improved social outcomes. The main weaknesses of the program are its potential costs, its reduction in labour force participation and its effect on family structure. These benefits and weaknesses will be discussed first through the Mincome experiment, which outlines the GAI experiment conducted in Canada. Second, the results of four GAI experiments conducted in the United States will be examined. Finally, several lessons from current GAI initiatives in the developing world will be analyzed.

Manitoba Basic Annual Income Experiment (Mincome)

In the late 1970s, a GAI experiment titled the Manitoba Basic Annual Income Experiment (Mincome) was piloted through a joint federal-provincial initiative in low-income households in Winnipeg and a rural saturation site in Dauphin. The experiment was part of a systematic review of social security programs in the country.[12] Although few results of the experiment were published at the end of the project in 1979, Hum and Simpson briefly address Mincome in their review of five income-maintenance experiments conducted in Canada and the United States and later revisit the research on Mincome in a more receptive political and economic climate in 2001.[13]

Advocates of the Mincome experiment emphasize the following benefits: its objectivity in determining eligibility for the GAI, the avoidance of stigma associated with welfare, the program's efficiency in targeting

payments to low-income individuals, and the possibility of introducing the GAI through a negative income tax into the already existing income tax system.[14] The two main weaknesses of the program are its potential costs and its potential effects on work incentives. The more generous the GAI, the more it will cost the government to administer, since non-workers receive larger payments, low-income earners keep a larger fraction of their earnings and a larger proportion of the population receives money from the scheme.[15] However, this cost does not take into consideration potential future benefits of fewer individuals in poverty, including increased education and meaningful future employment, lower healthcare expenditures, cost savings for existing welfare systems and a lesser burden on the federal and provincial penal system.[16] With respect to the effect of a GAI on work incentives, Hum and Simpson concluded that,

> "[o]n the whole the research results were encouraging to those who favour a GAI. The reduction in work effort was modest: about one per cent for men, three per cent for wives and five per cent for unmarried women. These are small effects in absolute terms and they are also smaller than the effects observed in the four US experiments [discussed below]…[G]iven the small effect on work incentives, the onus of proof is shifted to those who argue that a GAI would lead to an "excessive" work disincentive response."[17]

Additionally, family structure emerged as an issue in the experiment. While it was initially reported that the GAI tended to encourage marriage dissolution among families receiving the benefit, the research is still undecided in this area.[18] This suggests that future debate surrounding the GAI may focus on the family structure issue and become more politically charged.[19]

Four GAI Experiments in the United States

The guaranteed annual income debate originated in the United States with President Lyndon Johnson's call for a war on poverty in 1964.[20] In that year, the United States' Congress developed the Office of Economic Opportunity (OEO) that comprised public employment strategies, community action programs, and income maintenance. Although income maintenance was a readily accepted concept, the idea of a guaranteed annual income or a negative income tax was met with serious opposition.[21] Eventually, four negative income tax experiments were

developed due, in large part, to the policy analysis that showed that the GAI represented the "most bang for a billion bucks."[22] At this point, the main opposition was the potential effects of a GAI on labour supply of working aged individuals. Economists entered the debate concerning the wage price and income elasticity pertinent to labour-leisure choice. They agreed, however, that the existing data could not provide a clear answer to the work incentive question.[23] As a result, it became necessary to design experiments to test these assumptions.

The New Jersey experiment was the first to test the idea of a guaranteed annual income. Haveman and Watts observed that the "tension between the motivations of those who supported the experiment for 'general-political-demonstration' reasons and those who desired it for 'technical-economic-experimental' reasons persisted through the [New Jersey] experiment.[24] It affected all of its primary characteristics from technical design to duration, to selection of sites, and finally to the interpretation of results."[25] The New Jersey experiment served to set the precedent for controlled social experiments surrounding GAI in the United States and Canada. Following the New Jersey experiment, others experiments followed including one performed by the Institute for Research on Poverty to study a GAI in rural areas. Additionally the Department of Health, Education and Welfare (HEW) funded an experiment in Gary, Indiana and others in Seattle, Washington, and Denver.[26]

Each of these income-maintenance experiments served the purpose of illuminating the policy debate on the effects of implementing a GAI. Specifically, work incentives were determined by measuring labour-supply responses, more simply calculated by looking at the change in hours worked during the duration of the experiment.[27] In addition, each of the experiments was framed on a common study design and assignment model, which was first developed in the New Jersey experiment.[28] Each experiment focused on low income household units; however, the selection of income cutoffs varied from 150% of the official poverty line in the New Jersey, Rural and Seattle-Denver experiments to 240% in the Gary experiment.[29] Further, the duration of the experiments was three years, the exception being the Seattle-Denver experiment where some households were enrolled in 5- and 20- year plans to determine the effect of experimental duration on study results. Most importantly, each of the experiments focused on different areas in the United States and targeted different populations – an important feature to consider if the lessons learned are to be generalized to other jurisdictions. While New Jersey focused on inner-city households, the Rural experiment focused on rural

poverty in North Carolina and rural poverty amidst wealth in Iowa. The Seattle-Denver experiment focused on a Western city with employment instability and Gary examined black households in the ghetto.[30] Given the diverse regionalism that exists in Canada, this may give a better picture of how the effects of a GAI might differ throughout the country.

In the view of Hum and Simpson, the experiments were designed to "provide reliable and credible analysis of the response to a guaranteed annual income program to inform policy development."[31] The results of the experiment indicate that as expected, hours worked will decline with the introduction of a GAI. The reduction in hours worked was smallest for husbands, ranging from 1% to 8% and larger for wives, ranging from 3% to 33%.[32] For single female-headed households the reduction was between 7% and 30%.[33] As noted above, these reductions in hours worked were significantly higher than what was observed in the Mincome experiment. Hum and Simpson also analyze the elasticity of labour-supply response and conclude that, in contrast to non-experimental literature, there is a fairly uniform and low elasticity of labour-supply response.[34] Particularly, this low elasticity was seen across all categories of individuals, husbands, wives and single female-headed families. One important factor that was found in labour supply response of married men and women was the presence of preschool children in the home. Preschool children increased the labour supply of husbands, while reducing the labour supply of wives by approximately the same amount. Thus, changes in family composition may have a greater impact on labour supply than a GAI program itself. If the GAI were to be applied in a Canadian context, it is important to consider the effect on labour-supply the GAI might have, as well as the potential positive impacts resulting from the ability of individuals to stay home to care for children and elderly relatives.

The non-labour supply response that is the most problematic is the impact of a GAI on marital disruption. Research indicated that GAI payments might influence some degree of family breakup. However, these conclusions have been challenged and no clear consensus has arisen. What is uncertain is whether or not some of these marital breakups may actually be positive if, for instance, a woman becomes financially able to separate from an abusive husband. In such a case, it could be argued that the GAI actually has a positive effect for these individuals and any children the couple may have. The potential impact on family composition is an important area to consider in the implementation of such a program in Canada.

Hum and Simpson conclude that "[f]ew adverse effects have been found to date. Those adverse effects found, such as work response, are

smaller than would have been expected without experimentation."[35] Conversely, Anderson and Block disagree with the attempt to portray the GAI experiments as a case for the implementation of a GAI.[36] Instead, they view the labour-supply reductions as being significant and argue that by stating that work response was "smaller than expected" actually minimizes the figures. Although Anderson and Block make the point that it depends on what labour supply was expected to be in order to determine if in fact, the results were smaller than expected, their main concern is not actual labour supply decrease, but increased leisure time when receiving a GAI.[37]

Anderson and Block assert that individuals were not undertaking additional education during this time, and were choosing leisure as opposed to work.[38] Their analysis fails to consider the time frame effect on participation in education – had the experiment lasted longer than three years, more individuals may have decided to undertake this option. As well, they do not take into account other non-work activities, such as childcare or caring for an elderly relative, that most would not characterize as leisure activities per se. Finally, Anderson and Brock are of the opinion that "the poor are in poverty because they do not work" and that a national GAI would "only exacerbate an already serious problem: able-bodied adults who rationally prefer leisure and receive government subsidy for this preference."[39] Further, they view poverty as an individual *choice* – where one makes the conscious choice not to work and therefore does not have the income to support the basic necessities of life. This opinion is a very simplistic approach to the issue of poverty that negates the socio-environmental factors that may play a role in individual circumstances.

On the whole, the experiments from the United States provide very relevant data for the implementation of a GAI in Canada. The evidence found in these experiments though is limited, given that these experiments were conducted for a relatively short period of time. The long-term impact of a GAI – potentially positive or negative – is yet to be seen. Despite this limitation, these experiments provide useful insight into the effect of a public policy decision in Canada with respect to a GAI. Given the similarities of the countries, one might expect the results of a Canadian GAI program to be similar to the experience in the United States. Comparison with the Mincome experiment indicates that the strengths and weaknesses of the GAI were similar in both countries. Further, the increased regional diversity in the United States' experiments is important when considering the diverse regionalism in Canada.

Perspectives from the Developing World

In Brazil, the debate surrounding a GAI was introduced in the 1970s, but only gained serious attention during the 1990s. A GAI program, titled the Bolsa-Escola (School Scholarship Program) was created to direct funds to poor families with school-aged children. The funds were tied to compulsory school attendance in an attempt to stop the cycle of poverty resulting from lack of education in Brazil.[40] The Bolsa-Escola Program was implemented in the Greater Metropolitan Campinas to test the program. In the 10,000 families receiving the GAI, the school dropout rate was lowered to zero after two years.[41]

Although this model was very successful at increasing years of education in children, it did little to address the other aspects of poverty in Brazil. In 2003, President Lula announced the Hunger Zero Program under which the Bolsa-Familia program fell. This program stated that families with a per capita income below a certain level would have the right to an income supplement.[42] Supplements were determined based on the number and age of children in the household. This expanded program spread to 11.2 million families in Brazil by July 2006.[43]

Since then, a law has been approved by the National Congress to establish a Citizen's Basic Income (CBI). The CBI provides a level sufficient to cover individuals' basic needs, taking into account the degree of development and possibilities in Brazil.[44] Clearly, the lesson to be learned for Canada is that a progressive implementation of a basic income has been successful elsewhere. Given that Canada already has income supplements, such as the Child Tax Benefit and the Guaranteed Income Supplement for seniors, the next logical step would be the implementation of a GAI program. It is also important to note that specific targeted plans, such as the Bolsa-Escola program, were not effective on their own in dramatically reducing poverty.

GAI programs are also being advocated for in Argentina,[45] Namibia,[46] and South Africa.[47] Although these three countries, as well as Brazil, constitute members of the developing world, they all view income as a citizen's right.[48] Haarmann and Haarmann see a GAI scheme as the only public policy proposal that has the potential to curb the devastating effects of poverty in Namibia.[49] It is important to recognize the viewpoint that these developing countries have, that of income constituting a basic human right. While these countries have yet to implement a full GAI scheme, Canada has the opportunity to act as a leader in the developed world and take a huge positive step towards the elimination of poverty.

Conclusion

Eliminating poverty by establishing a basic income for all Canadians is an important policy goal. Given the current debate surrounding

implementation of a GAI in Canada, it is relevant to look to our past, specifically the Manitoba Basic Income Annual Income Experiment, as well as to the international community, for lessons regarding the implementation of a GAI program. By reviewing the experiments in Manitoba, four experiments in the United States and the experience of Brazil, Argentina, Namibia and South Africa, several critical lessons can be learned to provide insight for Canada.

While there are relatively few current examples of current GAI programs, there are a number of countries in the developing world and past experiments that can used to inform the policy debate in Canada. These experiments do have limitations in assessing the long-term impacts of a GAI. However, they still provide credible data to the policy debate – data that is often lacking when making policy decisions. In providing insight to the Canadian policy debate, the following should be considered. First, the work disincentive issue that was predicted to be "excessive" was in fact much smaller than expected. Although work-supply will decrease with a GAI, implicit societal benefits may be associated with individuals choosing not to work, including a lower burden on the health care system, fewer children in childcare and individual benefits associated with being able to stay home and pursue family-related care. Second, family composition may be affected by the implementation of a GAI, as evidenced in Manitoba and the United States. Although there is no consensus on this issue, further research may look into the specific reasons for changes in family composition. Third, a targeted program to specific segments of the population is not enough to eliminate poverty. An overarching GAI must be guaranteed to every citizen in Canada in order to make a significant difference in the issue of poverty. Fourth, the stigma associated with poverty was reduced through a GAI. This is critical in reducing the marginalization of individuals that experience income collapse. Finally, it was found that a GAI was an efficient way of targeting payments. Given that Canada already has an income system, a GAI could easily be implemented through a negative income tax. These lessons from the international arena should be used to inform the public policy debate on the implementation of a GAI in Canada.

NOTES

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[3] *Ibid.*

[4] *Ibid.*

[5] *Ibid.*

[6] *Ibid.*

[7] *Ibid.*

[8] Philippe Van Parijs, "Basic income: a simple and powerful idea for the twenty-first century." *Politics & Society,* 32.1 (2004).

[9] *Ibid.*

[10] James P. Mulvale, "Basic income and the Canadian welfare state: Exploring the realms of possibility." *Basic Income Studies: An International Journal of Basic Income Research,* 3, no. 1 (2008): Accessed September 20, 2010 http://www.bepress.com/cgi/viewcontent.cgi?article=1084&context=bis.

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[12] Hum and Simpson (2001).

[13] Hum and Simpson (1993); Hum and Simpson (2001): 80.

[14] Hum and Simpson (2001).

[15] *Ibid.*

[16] Segal.

[17] Hum and Simpson (2001): 80-81.

[18] *Ibid.*

[19] Mulvale.

[20] Hum and Simpson (1993).

[21] *Ibid.*

[22] *Ibid,* 5.

[23] *Ibid.*

[24] Robert H. Haveman and Harold W. Watts, "Social experimentation as policy research: A review of negative income tax experiments." *Evaluation Studies,* 1 (1976): 427.

[25] *Ibid.*

[26] Hum and Simpson (1993).

[27] *Ibid.*

[28] *Ibid.*

[29] *Ibid.*

[30] *Ibid.*

[31] *Ibid,* 276.

[32] Gary M. Anderson and Walter Block, "Comment on Hum and Simpson." *Journal of Labour Economics,* 11, no. 1 (1993).

[33] *Ibid.*

[34] Hum and Simpson (1993).

[35] *Ibid*, 287.

[36] Anderson and Block.

[37] *Ibid.*

[38] *Ibid.*

[39] *Ibid*, 352-353.

[40] Eduardo Matarazzo Suplicy, "Basic income and employment in Brazil." *An International Journal of Basic Income Research,* 2, no. 1 (2007): Accessed September 20, 2010 http://www.bepress.com/cgi/viewcontent.cgi?article=1067&context=bis

[41] *Ibid.*

[42] *Ibid.*

[43] *Ibid.*

[44] *Ibid.*

[45] Corina Rodriguez Enriquez, "Basic income and labour market conditions: Insights from Argentina." *Basic Income Studies: An International Journal of Basic Income Research,* 3, no. 1 (2007). Accessed September 20, 2010.
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