

A Basic Income for Canadians

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What would change?

by John Stapleton



Metcalf Foundation

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INTRODUCTION

The idea of a basic annual income guarantee has been around for decades, if not centuries. The topic has become popular again and a groundswell of authors and experts are currently writing about it. Most of the literature and commentary addresses issues regarding feasibility, financing, and desirability.

Noah Zon of the Maytree Foundation has written an important primer on a basic income called, *Would a universal basic income reduce poverty?*¹

Michael Mendelson of the Caledon Institute has written a seminal essay — ‘*Basic Income*’ or ‘*Bait and Switch?*’ — that explores how the personal income tax system would have to be fundamentally changed to accommodate a basic income.²

Armine Yalnizyan of the Canadian Centre for Policy Alternatives has explored the desirability of alternatives to a basic income, should the significant level of funding required become available. She notes that there are numerous other possible public service initiatives that could be funded with a large tranche of new money.³

Several others have weighed in on various aspects of the subject. Contributions over the past few months include:

- *Finding a Better Way: A Basic Income Pilot Project for Ontario*⁴
The Honourable Hugh Segal
- *Basic Income: Rethinking Social Policy*⁵ and
*A Policymaker’s Guide to Basic Income*⁶
David MacDonald, Canadian Centre for Policy Alternatives
- *Pilot Lessons: How to design a basic income pilot project for Ontario*⁷
Evelyn L. Forget, Dylan Marando, Tonya Surman, and Michael Crawford
Urban; Mowat Centre
- Basic Income Canada Network;⁸ Resources page
- *Basic Income: What it is and what it could mean for social assistance?*⁹
Income Security Advocacy Centre

¹ http://maytree.com/wp-content/uploads/2016/08/Policy_Brief_Basic_Income.pdf

² <http://www.caledoninst.org/Publications/PDF/1106ENG.pdf>

³ <https://www.thestar.com/opinion/commentary/2016/07/19/basic-income-how-about-basic-services.html>

⁴ https://files.ontario.ca/discussionpaper_nov3_english_final.pdf

⁵ <https://www.policyalternatives.ca/publications/reports/basic-income>

⁶ <https://www.policyalternatives.ca/basic-income>

⁷ <https://mowatcentre.ca/pilot-lessons/>

⁸ <http://www.basicincomecanada.org/resources>

⁹ <http://yourlegalrights.on.ca/webinar/basic-income-what-it-and-what-could-it-mean-social-assistance>

- “Provide a Universal Basic Income as Part of Social Assistance to Reduce Income Inequality” from *The 2016 National Index Report: How are Canadians Really Doing?*¹⁰
Canadian Index of Wellbeing, University of Waterloo Faculty of Applied Health Sciences

I have previously written about what a basic income would cost,¹¹ and what is meant by “annual”¹² when we refer to a guaranteed annual income.

In reviewing the publication of recent papers, it is clear that the concepts of a basic income and a guaranteed annual income are converging. In this paper I will use the term “basic income” to refer synonymously to a **basic income** and a **guaranteed annual income**.

A legitimate question to ask, given the current plethora of commentaries, is what of importance is left to say? The answer is that many critical aspects have yet to be examined because the scope and breadth of the issues underpinning a basic income are complex and immense.

Let’s begin with some concepts around which there is broad consensus.

- There is agreement that there are three established methodologies to determine poverty lines: the after-tax low-income measure (LIM-AT), the low income cut-off (LICO), and the Market Basket Measure. Each can measure income by family size. The LIM-AT places after-tax poverty level at incomes of about \$22,000 for a single person, and \$44,000 for a family of four.¹³ The Market Basket is somewhat lower than the LIM-AT and the LICO is appreciably lower than the others because it has not been fully recalculated since 1993.
- It is agreed that approximately seven out of eight Canadians at any one time already live poverty free.¹⁴ Based on the LIM-AT, their income levels are high enough to escape poverty. Through work, investments, accumulated wealth, or income security programs of various sorts, their income is above established poverty lines.
- It is understood that one out of eight people in Canada live in what is known as “income poverty.” This means that they have after-tax incomes below the LIM-AT.

¹⁰ <https://uwaterloo.ca/canadian-index-wellbeing/>

¹¹ <http://vibrantcanada.ca/blogs/john-stapleton/they-cant-we-can>

¹² <http://vibrantcanada.ca/blogs/john-stapleton/guaranteed-annual-income-contains-three-words-let%E2%80%99s-talk-about-%E2%80%98annual%E2%80%99-part>

¹³ 2013 figures adjusted by the consumer price index to 2016.

¹⁴ <http://www.cwp-csp.ca/poverty/just-the-facts/>

- It is agreed that the one in eight people in Canada¹⁵ who are living in poverty (about 4.5 million) need to be raised out of poverty through a transfer of income.
- There is little agreement regarding design, but it is understood that in any design of a basic income people not living in poverty would not receive benefits from the program, or that it would be taxed back from them, at least in part, above an established poverty line.
- Another design element that is commonly agreed upon is that all Canadians living in income poverty would be provided with sufficient funds to escape poverty with minimum conditions of receipt.

“...only 28% of our present system is actually sensitive to income...”

There is one major area where consensus has not been achieved and that is defining what a basic income is. Widely divergent designs all claim to be examples of a basic income.

In this paper, I illustrate how ordinary Canadians receive very different treatments from Canada’s income security system. Contrary to what many believe to be true, income security from Canada’s programs often increases with both wealth and income. In addition, it is not widely known that benefit clawbacks are most extreme at the lower end of the income scale. Those who are better off are often able to keep most, if not all, of the income security benefits they obtain without fear of benefit reductions.

I show that only 28% of our present system is actually sensitive to income at all, and that the lion’s share of the overall system goes to the elderly. This is the result of an income security system that has grown over 100 years of additions, tinkering, innovation, redesign, and influence by various schools of thought. It is a set of systems that we know and with which we have a level of comfort.

So how can it be that it appears to be an article of faith that a new set of income systems, that would replace what we have now, would be more sensitive to incomes and would provide fairer benefits to people living in poverty? This is a conversation in which Canadians have not engaged. On the contrary, new ideas, like that of a current-day basic income, seem to “slide past” the existing set of systems as if they were tectonic plates without earthquakes or volcanoes.

In this paper I consider four people. I examine their income security profiles under the current set of systems and explore what would happen if a basic income became available. I have included actual budgets to show how much each individual would need, where needed, to escape poverty.

Looking around at the crossroads between the current system and the way in which many have envisaged a basic income, there are a host of surprises. It

¹⁵ <http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=2060041> — based on 2014 Canadian Income Survey.

“The purpose is to show how a basic income would work in real life situations — who would get more money and who would not...”

is surprising to see that a single woman who works full time has the most to gain, but a lone parent mother may get nothing. Similarly, an aged veteran may keep all the perks of the current system, while a very poor formerly homeless senior woman would receive only a modest bump in benefits.

I will also review the historical construction of our programs and consider design approaches. I conclude with some specific ideas about how a basic income would, or would not, help our four individuals.

The purpose is to show how a basic income would work in real life situations — who would get more money and who would not — while also considering the manifest unfairness of the untended current system.

Throughout the paper I have provided figures and tables based on administrative data shown on the websites, the public accounts, or in other documents revealing the expenditures of income security programs. The data has been assembled by Ottawa-based social policy analyst Anne Tweddle who has been assembling and analyzing these data sets for over 40 years. The data is provided on a fee-based basis to Open Policy Ontario, the social policy consultancy of the author. Comparative data is provided through analysis of Statistics Canada data.

WHO CURRENTLY GETS INCOME SECURITY IN CANADA?

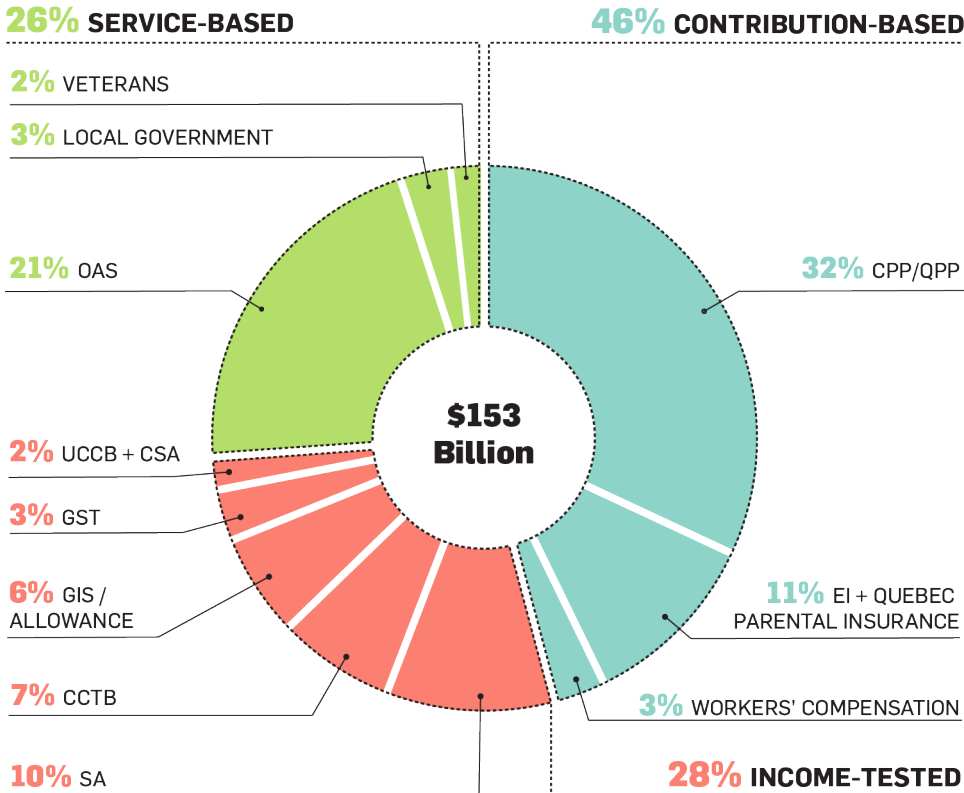
One consideration often not included in discussions about basic income is the matter of who currently receives income security, from which programs, and how much.

Canada’s existing income security programs (see Figure 1), can be divided into three categories. Each is based on a different philosophy:

1. **Contribution-based** programs;
2. **Service-based** programs; and
3. **Income-tested** or **needs-based** programs.

SPENDING BY PROGRAM PHILOSOPHY

FIGURE 1 ESTIMATED INCOME SECURITY PROGRAM SPENDING, 2013



Monetary **contribution-based programs** are not payable to Canadian residents unless they contribute money into them or payments are made into them on their behalf. As these programs are not income-tested, millionaires with fabulous paychecks get the same amounts as lower income people. These programs include **Canada Pension Plan (CPP)**, **Employment Insurance (EI)**, and **Workers' Compensation**.

Service-based programs are based on notional or real service to Canada. One cannot receive full **Old Age Security (OAS)** without living in Canada for 40 years between ages 18 and 65. Partial OAS has residency requirements that range from 1 to 39 years' residence. OAS payments are based on notional service to Canada and are only subject to clawbacks at high income levels. In other words, if one lived in Canada, paid taxes, and worked and contributed to Canada, one can obtain OAS when one attains the age of 65. **Veterans' programs** are based on military service to Canada. They can be reduced based on need but most programs are not income-tested. Some are based on need.

Income-tested or needs-based programs all have one characteristic in common: they reduce in value with increased income. Every income-tested, needs-based income security program can be reduced to zero if income is sufficiently high. These programs include **child benefits**, **social assistance**, and all **refundable tax credits** at the federal and provincial levels.

Table 1

Proportionate Share of Canada's Income Security System, 2013

TARGET GROUP	PERCENT OF POPULATION	SHARE OF INCOME SECURITY SYSTEM	DIFFERENCE
Seniors	16.5%	52.0%	+35.5%
Children	19.3%	9.0%	-10.3%
Working-Age Adults	64.2%	38.0%	-26.2%

Table 1 shows how, comparatively speaking, seniors draw a disproportionate share of Canada's income security system. Seniors historically receive the lion's share of the income security system because they must maintain households when they are not expected to have employment income.

Children and working-age adults are both underrepresented proportionally. Working-age adults receive the least proportional share because they have access to work while children and seniors generally do not.

Viewed without the screen of responsibility for individual or family livelihood, seniors appear to receive much more than they should, and the intergenerational transfer of poverty from seniors to children and their working-age parents is palpable.

We have an income security system that lifts most seniors out of poverty. Those who remain in poverty live in what is called “shallow” poverty — meaning the amounts they would need to take them out of poverty are relatively small. In addition, many children have been lifted out of poverty with the advent of refundable child benefits that do not reduce social assistance payments.

It is working-age adults who are poor who experience the deepest poverty, and the largest proportional deficit, compared to seniors and children.

INCOME TRANSFERS IN CANADA

ESTIMATED INCOME SECURITY SYSTEM TRANSFERS BY TARGET GROUP, 2013

FIGURE 2

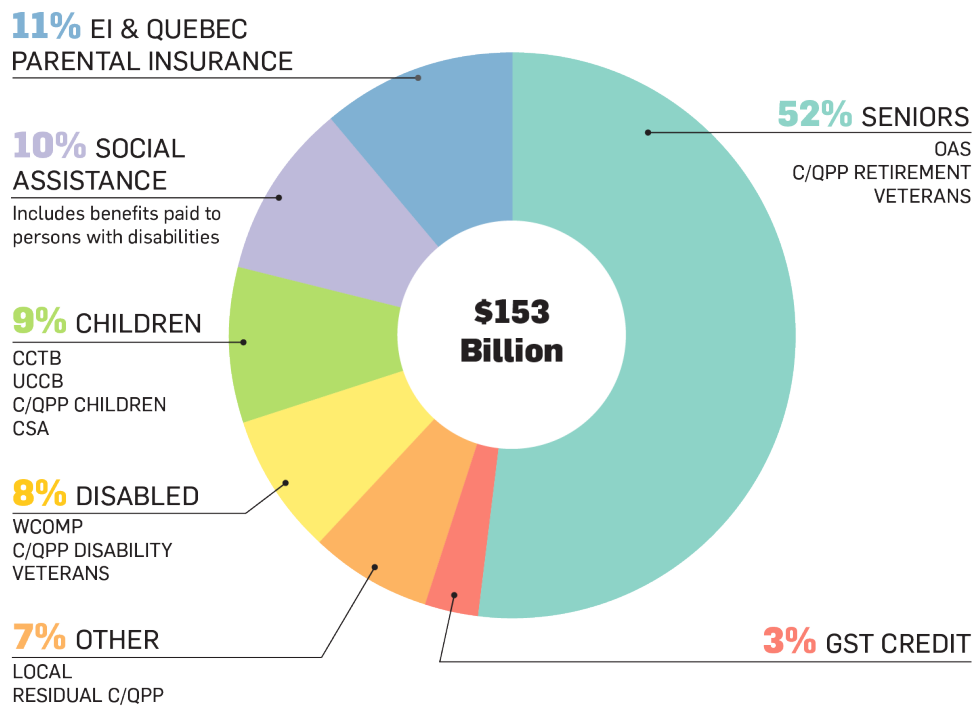


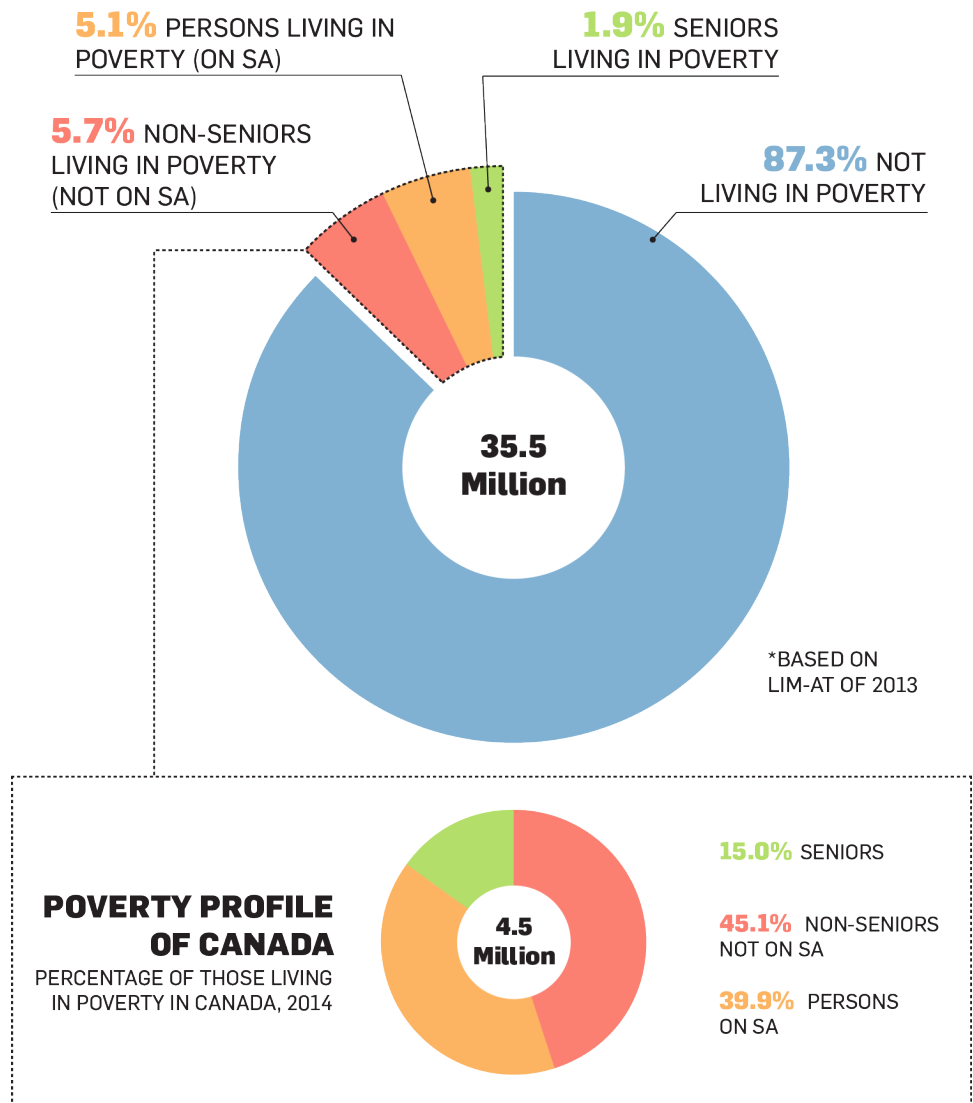
Figure 2 shows in dramatic fashion how seniors receive over 52% of all income security transfers to individuals. Seniors first began to receive more than 50% of all income security payments in 2012. This is when the baby boom generation began to reach age 65 and started to receive OAS. The second reason for the increase is that the indexation of benefits is the federal rule, but the provincial exception. For example, OAS is indexed quarterly and CPP yearly. Social

assistance, in contrast, has never been indexed and has from time-to-time been cut substantially. Accordingly, the “market share” of income security system transfers to seniors continues to increase and, in 2016, will likely be much higher than 52%. The result is that most seniors do not live in poverty and those who do, do not live in deep poverty.

A review of income security expenditures begins to reveal where we find the deepest poverty.

PERSONS LIVING IN POVERTY

FIGURE 3 PERCENTAGE OF CANADA'S 2014 POPULATION LIVING IN POVERTY WHO ARE SENIORS, NON-SENIORS, OR ON SA*



Who is living in poverty?

Figure 3 shows the percentage of persons living in poverty. It illustrates that:

- 5.1% of all Canadians are living in poverty and are recipients of social assistance. They are almost without exception not part of Canada's senior population.
- 5.7 % of all Canadians are living in poverty and are non-seniors who do not receive social assistance. Most of these people are members of what is called the working poor.
- 1.9% of all Canadians are seniors living in poverty.

A basic income could be delivered to every poor person in Canada up to the poverty line (using the LIM-AT as the measure) but how this would be achieved differs from one plan to another. For example, the 5.1% of people in Canada — 1.8 million of the 4.5 million — who are poor and who receive their income from social or income (welfare) assistance programs, can access benefits from nine separate income systems, all with varying purposes. Any changes made would require careful consideration of the whole system.

The poverty profile at the bottom of Figure 3 shows us more closely who is poor in Canada. Just 15.0% are seniors, even though they comprise 16% of the population. As previously noted, as we begin to look at the situation of real seniors, their poverty is generally shallow. This is not the case for low-income working-age adults. Many poor working-age adults experience deep poverty, and they would require substantial income increases to raise their income levels to the poverty line.

A TALE OF FOUR INCOMES

I want to talk about four people. Two individuals are seniors I know who have very different incomes — one is financially comfortable and the other is poor. The first is my father and the second is a woman for whom I have advocated. The other two individuals are of working age and are composites of people I have met. One is a single working poor woman and the other a lone parent with modest earnings.

Throughout the discussion of the four we will see the interplay of a complex human rights and dignity dynamic that is at play in our current income security system, and that will strongly impinge on any reform. None of the four receive social assistance and are not, if we look back to Figure 3, part of the 5.1% of Canada's population that receives assistance.

The reason I have not chosen social assistance recipients is that it would appear to be straightforward that the 1 in 20 Canadians¹⁶ who receive social assistance qualify for a basic income under most proposals. At the very least, their incomes would be increased to the poverty line in all of the proposals and designs. Two of our individuals — Al and Lorraine — are part of the 87.3% not living in poverty, though Lorraine is living much closer to the poverty line than Al. The third person — Linda — is part of the 1.9% of senior Canadians living in poverty, and the fourth — Kaye — is part of the 5.7% of non-seniors living in poverty, who do not receive social assistance.

These four examples are meaningful to consider for a variety of reasons related to the relative generosity of the current income security system and the changes that would have to be considered if a basic income is implemented. Al's profile reveals how generous Canada's income security system can be for a senior who is already guaranteed a comfortable poverty-free life through his pension. In contrast, Linda's situation illustrates how tough the system can be for a senior already living in poverty.

The example of Kaye shows how a single person, who lives in very deep poverty yet cannot access social assistance because her income is too high, receives relatively miniscule amounts from other income security programs. Finally, Lorraine's profile reveals a situation where a mother can access relatively generous child benefits that lift her out of poverty.

Taken together, it becomes very clear that the current income security system may be seen as favouring those who are already doing relatively well while dealing harshly with those who are among the poorest. While it could be

¹⁶ 1 in 15 in Ontario.

presumed that a basic income would redress this anomaly, it is not at all clear that Canadians are aware of the fundamental changes in philosophy that they would be forced to consider if our current system were to be most generous to those with low incomes and less generous to those with higher incomes.

The changes we would have to make to realign our present system will challenge some of our most deeply held values relating to contribution, need, service, duty, and sacrifice.

Two senior citizens

Al's story

Let's begin with my father. He is 97 years old and in comparatively good health. He lives in his roomy family home that is paid for. He has a defined benefit pension that on its own keeps him out of poverty. No form of basic income would ever give him more money than he already receives in his pension. He also has savings.

It doesn't stop there. He gets OAS, CPP, and a stipend from Veterans' Affairs Canada. Three public sources of income — part of the \$170 billion or so Canada spends in income security — provide him additional funds.

My father is a veteran of World War II. He enlisted in September 1939 and came back home in August 1945. He was in harm's way on many occasions. He worked on the encryption machines code-named Enigma popularized in the movie *The Imitation Game*.

Al's income security

My father receives about \$27,000 a year from OAS, CPP, and Veterans' Affairs Canada (VAC). He has medical bills that are largely paid for through his former employer and Veterans' Affairs. He is not living in poverty.

If Al receives more money, his housing costs do not go up and his income from the federal government does not go down.¹⁷ My father can put his savings into a Tax Free Savings Account (TFSA) and pay no tax on either the interest it earns or the gains his investments realize. When he invests, his tax rate on capital gains is half of what he pays on his income. If he has dividends, he gets a dividend tax credit.

My father's guaranteed annual income is considerably above the poverty line but he can save tens of thousands of dollars with no tax implications. The highest rate of taxation he theoretically could pay on his capital gains is about 23%.

"...it is not at all clear that Canadians are aware of the fundamental changes in philosophy that they would be forced to consider if our current system were to be most generous to those with low incomes and less generous to those with higher incomes."

¹⁷ His income would only go down if his OAS is clawed back. See: <http://www.taxplanningguide.ca/tax-planning-guide/section-2-individuals/old-age-security-oas-clawback/>

What happens to Al if a basic income is put in place?

Al would receive no more money if a basic income were put in place. In fact, he already has a form of a guaranteed income through his OAS, CPP, and VAC.

Linda's story

Linda receives OAS in the same amount as Al. She also gets the Guaranteed Income Supplement (GIS) and payments from the Guaranteed Annual Income System for Aged (GAINS-A) in Ontario. She also receives GST credits and money from the Ontario Trillium Benefit (OTB) program. Linda rents in subsidized housing and pays about \$400 a month. She has no savings and a small amount of debt.

Linda has medical expenses, many of which are not covered because they have been delisted from health insurance in Ontario. Living in an older public building, Linda's hydro bill exceeds \$120 a month for a small one-bedroom apartment.

If Linda goes to the bank to get a loan to pay off her debts, the quoted interest rate is approximately 10% (and that's after I offered to guarantee payment just to get a quote). My father can secure a line of credit loan with an interest rate of just over 3%.

Linda did not apply for CPP because 100% of her CPP would be recovered from her income-tested seniors' benefits.¹⁸ The GIS is reduced by 50% of income received and GAINS-A is also recovered at 50%. Linda can't increase her income by making speeches because her honorariums are recovered¹⁹ at 100% off of her "guaranteed annual income." If Linda, who is 67, were to get a job, her rent would go up by 30 cents on the dollar and her GIS (after \$3,500 in earnings) would go down by 50 cents on the dollar. As a result, Linda has no savings and realistically has no options available to her to build savings.

Linda's income security

The amount of money Linda gets from her five public sources (OAS, GIS, GAINS-A, GST credits, and OTB) is less than what my father receives from OAS, CPP, and VAC. Linda receives about \$19,700 from six sources of income. (The five public sources plus the honoraria noted above.) Linda is poor because her income falls below the LIM-AT for a single person.

¹⁸ <http://openpolicyontario.com/a-story-of-two-poor-seniors-linda-and-doris-are-the-highest-taxed-people-in-ontario/>

¹⁹ <http://www.thestar.com/news/world/2015/03/29/should-poor-seniors-have-to-pay-to-volunteer-porter.html>

LINDA'S ANNUAL INCOME		
TYPE OF INCOME		ANNUAL TOTAL
Benefits	Old Age Security	\$6,942
	Guaranteed Income Supplement	\$9,619
	GAINS-A	\$246
Refundable Credits	Federal GST/HST Credit Quarterly Amount	\$276
	Ontario Trillium Benefit Monthly Amount, which encompasses <ul style="list-style-type: none"> • Ontario energy and property tax credit monthly amount • Ontario sales tax credit monthly amount 	\$1,086
Earnings	Honorarium for speeches	\$1,500
NET INCOME		\$19,669

What happens to Linda if a basic income is in place?

Under a basic income program, Linda would receive a modest yearly top-up to her seniors' benefits to raise her income to a level equal to the LIM-AT measure. The LIM-AT for Canada for a single person, in the latest year available (2016), is \$21,971²⁰ for the year rounded to \$22,000. The LIM represents half (50%) of the median income for Canada for that family size.

The following table shows Linda's balance sheet.

A BASIC INCOME FOR LINDA IN ONTARIO	
INCOME SOURCE	ANNUAL TOTAL
Seniors Benefits	\$16,807
Refundable Credits	\$1,362
Earnings	\$1,500
Deductions	\$0
Net Income	\$19,669
Basic Income Top-Up	\$2,331
LIM-AT Amount	\$22,000

It is significant that Linda is one of Canada's poorest seniors, as she receives GAINS-A and has no CPP. Her total outside income only amounts to \$1,500 per year — 100% of which is confiscated by the recovery (i.e. tax backs or clawbacks) of her seniors' benefits. The fact that one of our poorest seniors only requires \$2,331 to take her out of poverty is heartening because it is easily within reach.

²⁰ <http://www.statcan.gc.ca/pub/75f0002m/2015002/tbl/tbl03-eng.htm>

Comparing Al and Linda

This is a tale of two very different incomes. My father is not poor because he has an adequate defined benefit pension and would not be poor even if he received nothing from Canada's income security system. Linda receives six income security payments and still lives below the poverty line. She would rise closer to the poverty line if her \$1,500 in yearly honorariums were not confiscated. The political realities are that Linda is now receiving more GIS money from the new government in Ottawa which brings her closer to the poverty line.

My father can easily meet his expenses out of his pension because his pension is adequate and he lives in a mortgage-free home. There is no comparison to what she confronts living in a subsidized apartment with sky-high utility bills and with unsubsidized medical bills.

The dilemma remains that my father receives 37% more in income security payments (on top of his pension) than Linda receives from hers. No one is looking to take any of my father's benefits away from him and although there are reasons to believe that the single GIS may be raised²¹ by \$1,000 a year, this would still result in my father receiving 31% more than Linda.

Underlying these differences are the three categories of contribution, service, and need.

My father gets his \$33,000 from our retirement income security system: OAS, CPP, and Veterans' Affairs benefits. He gets full OAS because he lived in Canada for 40 years beyond his 18th birthday. He gets CPP because he worked full time for 36 years between 1946 and 1982 and contributed part of his salary to the CPP. His pension benefits were reduced at age 65 because he became eligible for OAS and CPP. As a result of serving in World War II, he receives benefits from the Veterans Independence Program (VIP) as he still lives in his own home.

Few Canadians would agree that his \$33,000 in total benefits should be cut. They would agree that he should get his OAS because he met the residency requirements. They would concur that he should be able to get CPP benefits because he contributed to the plan during his working years. I also believe that Canadians would agree that he should remain eligible for veterans' benefits because of his sacrifices as a teenager and a young man.

Linda gets OAS on the same basis as my father, and in this area they are equals. But Linda has a very low CPP entitlement that is not worth applying for because it would be confiscated through the rules in place in the GIS and GAINS-A programs. Besides, she did not work for most of her life as she had severe mental health issues that kept her from holding down a paid job. For a considerable portion of her working years she was homeless.

²¹ <http://www.theglobeandmail.com/report-on-business/rob-commentary/what-the-liberal-victory-could-mean-for-your-pension-plan/article26954584/>

Linda also receives refundable tax credits (money that you get from governments even when you don't pay taxes) that my father is ineligible to receive. In this case, as with GIS, the principle of need as it relates to low income prevails.

Few Canadians would see Linda's income as adequate to meet her basic needs, medical expenses, and high utility costs, just as most Canadians — I believe — would see my father's pension income as adequate to meet his needs.

Two working-age adults

Kaye's story

Kaye is 47 years old and single. Kaye lives in a co-op that she joined when she was in her late twenties. She gets a break on her rent for her studio apartment and pays just \$600 a month.

Kaye is a self-employed sole proprietor. She handles bookkeeping for seven non-profit organizations in Toronto. She says she enjoys the work, which involves collecting receipts, making sense of things, and entering amounts in their proper categories in excel spreadsheets. In an average year she grosses about \$10,500, or about \$1,500 on average per contract.

She likes the fact that she can deduct her expenses but she does not pay into EI or CPP because she says she cannot afford both the employer and employee contributions required and still be able to pay her rent.

If she paid into CPP, it would cost Kaye \$346.50 annually as an employee and the same amount for the employer portion. She would pay an EI employee contribution of \$197.04 and \$296.01 for the employer portion. As a person already living in deep poverty, Kaye finds the extra \$1,186 she would have to pay each year to be prohibitive.

Kaye lives frugally. She buys her clothes at various exchanges such as Goodwill and Value Village. She cooks almost all her own food in her apartment.

When Kaye is not working she takes care of her mother. Her mother is a 65 year old single woman who raised Kaye and Kaye's sister as a lone parent mom. She has started to have unspecified medical issues, and lives in subsidized housing that Kaye can visit using her Metropass in Toronto's transit system.

As part of Kaye's arrangement to live in the co-op, it is also understood that she will do work on the public spaces, such as helping with painting, gardening, and general cleanup. She especially enjoys doing the gardening.

Kaye is one of the people whom a basic income is going to help the most. The present income security system in Canada now provides her with very little.

Kaye's income security

Kaye has tried to apply for social assistance on two occasions. Her \$10,500 income disqualifies her for assistance, as no single person is financially eligible unless their income is below \$8,472 a year. This means that Kaye has to pay for her own dental care, and the modest prescriptions that she gets from time-to-time do not meet the threshold for Ontario's low-income drug program.

KAYE'S ANNUAL INCOME		
TYPE OF INCOME		ANNUAL TOTAL
Refundable Credits	Federal Working Income Tax Benefit	\$1,015
	Federal GST/HST Credit Quarterly Amount	\$307
	Ontario Trillium Benefit Monthly Amount, which encompasses <ul style="list-style-type: none"> • Ontario energy and property tax credit monthly amount • Ontario sales tax credit monthly amount 	\$715
Earnings	Self-Employed Earnings	\$10,500
NET INCOME		\$12,537

When Kaye files her taxes she gets money back in the form of refundable credits. Kaye's total income, including refundable tax credits and her earning from self-employment, comes to \$12,537. She has no pension or benefits. She will not qualify for CPP and EI as she does not pay the extra \$1,186 required in payroll deductions. She does not pay into Workers' Compensation.

Kaye has no savings and nets the same amount of income as someone working full time at minimum wage for seven months in a year.

What happens to Kaye if a basic income is in place?

Under a basic income, Kaye's income would be raised to \$22,000. She would receive a yearly increment of \$9,463 to raise her from the \$12,537 she currently makes.

A BASIC INCOME FOR KAYE IN ONTARIO	
INCOME SOURCE	ANNUAL TOTAL
Refundable Credits	\$2,037
Earnings	\$10,500
Deductions	\$0
Net Income	\$12,537
Basic Income Top-Up	\$9,463
LIM-AT Amount	\$22,000

Kaye is a significant beneficiary under a basic income. She would receive almost \$9,500 to raise her income to a level equal to the LIM-AT measure for a single person.

So far, I have not talked about what happens if Kaye were to earn more money. In the least expensive versions of a basic income, any increase in earnings would be deducted at 100% or dollar-for-dollar.

For other low-income single people, similar calculations would have to be done. For example, if the benchmark is \$22,000 a year, a single recipient of Ontario Works would receive a top-up of about \$12,000, and a single senior would receive just over \$1,331.

Lorraine's story

Lorraine is a 34 year old lone parent mother. Her father lives in BC and her mother passed away two years ago. Lorraine lives in an apartment in a Toronto suburb where she has been living for 9 years. She pays \$1,400 a month for her two-bedroom suite. (This is 39% of her income; housing advocates say a family should pay no more than 30%.) Her children — Karen, 11, Joey who is 8, and Riley who is 7 — go to school in the public system. She pays \$6,000 a year to her cousin for child care. She reciprocates with free babysitting for her cousin as often as she can.

Lorraine works as a retail sales assistant to a manager in a mall outlet. She is paid \$30,000 a year. She enjoys meeting people and showing the products in the store to their best advantage.

Lorraine also receives \$2,400 a year in taxable child support payments from her ex-spouse.

Lorraine lives frugally. She buys her clothes at discount chains and shops at dollar stores for her kids' school needs. She cooks almost all her own meals for her and her children.

LARRAINE'S ANNUAL INCOME		
TYPE OF INCOME		ANNUAL TOTAL
Refundable Credits	Child Benefits	\$18,876
	Federal GST/HST Credit Quarterly Amount	\$987
	Ontario Trillium Benefit Monthly Amount, which encompasses <ul style="list-style-type: none"> • Ontario energy and property tax credit monthly amount • Ontario sales tax credit monthly amount 	\$1,515
	Federal Working Income Tax Benefit	\$271
Earnings	Employment Earnings	\$30,000
Support	Taxable Child Support	\$2,400
GROSS INCOME		\$54,049
Deductions	Employment Insurance	(\$564)
	Canadian Pension Plan	(\$1,312)
	Income Tax	(\$1,309)
	TOTAL	(\$3,185)
NET INCOME		\$50,864

Larraine's income security

Larraine does not qualify for social assistance. Her \$30,000 gross salary disqualifies her. Larraine has to pay for her own dental care. The modest prescriptions that she gets from time-to-time do not meet the threshold for Ontario's low-income drug program.

Larraine's total net income including refundable tax credits and her earnings from employment come to \$50,864. She has no pension or benefits but she will qualify for CPP and EI (if she loses her job) as she has payroll deductions. Larraine pays income tax even though her refundable credits greatly exceed the amount she pays in. Larraine has no savings.

The estimated LIM-AT for Canada in 2016 for a family of four is \$44,000 adjusted from 2013 to 2016 by the consumer price index.²² The LIM represents half (50%) of the median income for Canada for that family size.

What happens to Larraine if a basic income is in place?

Larraine is another person whom a basic income is not going to help. She and her three children live above the poverty line. The present income security system in Canada now provides her with very robust supports of \$21,649 a year, which lift her out of poverty.

²² <http://www.statcan.gc.ca/pub/75f0002m/2015002/tbl/tbl03-eng.htm>

A BASIC INCOME FOR LARRAINE IN ONTARIO	
INCOME SOURCE	ANNUAL TOTAL
Refundable Credits	\$21,649
Earnings	\$30,000
Support	\$2,400
Deductions	(\$3,185)
Net Income	\$50,864
Basic Income Top-Up	\$0
Excess	\$6,864
LIM-AT Amount	\$44,000

Larraine would receive no additional income under a basic income if existing benefits and credits are taken into account.

Comparing Kaye and Larraine

The current system of income security is much more responsive to Larraine than to Kaye. Larraine's income security benefits exceed Kaye's by 963% – even though Larraine's market income exceeds Kaye's by 185%.

The difference is that Larraine has children and Kaye lives alone, which puts each of them in different household status categories. Since the late 1990's and the National Child Benefit initiative of the federal government, refundable credits (tax delivered benefits) have been greatly increased for children at both the federal and provincial levels. Much less generous refundable credits have been initiated for all family types over the years including GST credits (1992), Working Income Tax Benefits (2007), and Trillium credits (2012). Larraine receives 5% more in these latter three credits (\$2,901) than the much lower earning Kaye (\$2,752), because of her household status of four.

Both Kaye and Larraine receive all their income security benefits from the 28% of program expenditures classified here as income-tested. Within those programs, there is a tremendous bias towards families with children. Canada and its provinces have done an excellent job of taking many families with children, and especially lone parents, out of income poverty.

But within the array of income-tested programs, mainly social assistance and refundable tax credits, the single person is being left behind. The fact that Kaye would have to almost double her income to be brought out of poverty is significant. It is equally important that Larraine's refundable tax credits and her low taxes raise her net income to an amount that is comfortable beyond recognized poverty lines. Once again, it is not that we have gone too far in

“Linda receives most of the benefits she gets because she demonstrates **need**; my father receives most of his because of his **contributions**. These are entirely different bedrocks.”

helping Lorraine, it is the fact that we have left the Kayes of the world so far behind.

Comparing our four profiles: Al, Linda, Kaye, and Lorraine

What is staring us in the face is that our income security system is not about adequacy or providing a floor income — it’s about emotions, morality, and personal biography.

My father is paid veterans’ affairs benefits because he served his country. This is about duty and sacrifice and placing oneself in harm’s way for God and country. He gets CPP because he paid into it and he gets a pension because he paid into that. He gets full OAS because he lived his long life in Canada. None of this is about need or adequacy. If it was, he would get nothing from any of these sources.

Linda receives OAS because she lives in Canada. She gets the GIS and GAINS because she has no other outside income. And she also gets refundable tax credits because her income is low.

Linda receives most of the benefits she gets because she demonstrates **need**; my father receives most of his because of his **contributions**. These are entirely different bedrocks.

The benefits that different people receive in Canada reveal a complicated array of programs. Persons with disabilities, as exemplified by Linda, can get income security benefits from programs that reflect all three philosophies. Some will get benefits through contribution (CPP, EI, Workers’ Compensation), others will get benefits through service (veterans’ benefits), while others will obtain benefits based on need (social assistance). When people with disabilities reach age 65, they age out of most disability income programs but retain their eligibility for the disability tax credit.

Like the programs for person with disabilities, programs for seniors are available in all three categories. Some get benefits through contribution (CPP), others through service (OAS), while others will obtain benefits based on need (GIS and provincial supplements). Both Al and Linda together receive benefits from all of these programs.

Unemployed people receive benefits from two categories: contribution (EI), and income-tested (social assistance and refundable tax credits). It’s only when we get to target groups like Lorraine, who has children, that we see the benefits from all the available income-tested programs (social assistance, child benefits, and provincial programs).

Kaye’s only benefits come from the Working Income Tax Benefit (WITB) and other refundable credits. Even though her earned income is very modest, her assistance from the income security system is by far the lowest of the four.

Looking at actual people and how they fit into program categories shows that there is no uniformity among different populations. We can also see that various people in Canada benefit from very different and overlapping programs that cross philosophical divides. No one wanting to implement a basic income program is going to be able to appeal to a particular target group that only takes income and need into account. There are too many allegiances to monetary contribution and service within Canada.

Further, if someone proposes to introduce a basic income program that is sensitive to income, including income from work or investments, I do not believe there can be a large enough constituency of support. Too much of our current system is not income-tested in any way. That's why you can be a millionaire on OAS, CPP, EI, Workers' Compensation, and so on. As we've noted, only 28% of Canada's income security system claws back any form of income.

CANADA'S INCOME SECURITY HISTORY

Canada's history of income security helps us understand how we ended up with such an elaborate array of programs that address three different philosophical approaches. We started out over 100 years ago with Workers' Compensation and then moved into a variety of programs in the 1920's based on need (old age pensions, mothers' allowances, social assistance and so on). Then we went on a quarter century tear with contribution-based programs that included payroll taxes for unemployment insurance (1940), pensions (1951 and 1964), and CPP in 1966.

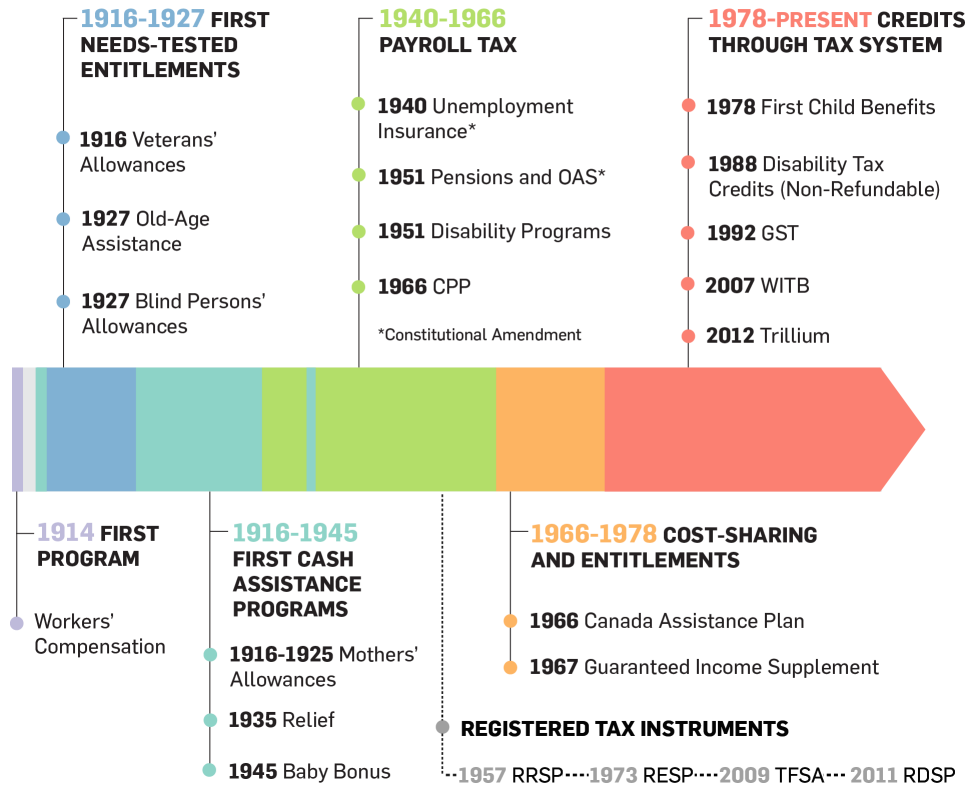
With the establishment of the Canada Assistance Plan (CAP), Canada began assisting all provinces and territories with their needs-tested benefits. This was followed by the sweeping reforms in OAS in 1977 to develop a "service to Canada" model with full benefits based on 40-year residency in Canada.²³

Veterans' benefits have traditionally been supplied in non-monetary form through the provision of jobs, education, training, and land grants. But cash payments to veterans based on service now comprise an important aspect of these payments especially as they relate to various iterations of the Veterans' Charter and Canada's increased reverence for its men and women in uniform.

²³ http://www.nilsonco.com/insight-past/old_age_security/

HISTORY OF MAJOR INCOME SECURITY PROGRAMS

FIGURE 4 ONTARIO, CANADA



This is all to say that there is no Lamarckian inheritance²⁴ in our income security programs. We don't seem to be headed in any particular direction in our program category types. In fact, over the past decade the Harper government implemented a big savings program (TFSA) along with the Universal Child Care Benefit and the WITB.

Endless tinkering but few conversations about rights

Figure 4 illustrates how Canada tries on different principles to build its income security platform. We endlessly tinker with our programs, but when we change philosophies the old programs usually remain intact.

A sprinkle of pension reform here and refundable child credits there — welfare reform here and a bit of EI reform there — but there is no real appetite to take on the whole system either by category or by target population.

Let's go back to our four people. My father continues to get 31% more than Linda from our income security system, even though he doesn't need it. Linda

²⁴ <https://en.wikipedia.org/wiki/Lamarckism>

lives in poverty and continues to be unable to make ends meet. Lorraine receives enough income from various income-tested programs to take her out of poverty, but Kaye remains in very deep poverty. Lorraine benefits more from programs designed for adults than Kaye, even though Kaye's income needs are far higher than Lorraine's.

This means that we are really not thinking about need. It also means that we are not thinking clearly about rights, contributions, and service.

I don't have to explain my father's service to his country and his contributions. These are well known and the type of service and contributions he represents are equally well known. But a simple search of Linda's name online — Linda Chamberlain — demonstrates that she is a human rights hero. She saves pets, she speaks up for people with mental health issues, and she has personally and selflessly won a lot of battles for people who don't have her presence or her voice. Linda's contributions are not the type that get paid into unemployment or pension benefits. Decades of volunteering doesn't translate into a defined benefit pension. In fact, it doesn't get you any kind of pension at all.

Kaye works full time to maintain her accommodation and the paid work she loves. She is also a caregiver to her mother. Lorraine works hard raising her family and holding down a full-time job, and because she has children, she gets much more from our income security system even though her earnings are almost triple what Kaye's are.

These examples tell us a lot about what we value as a society. Most of all we value monetary contribution and economic activity. Make money on a stock and we tax you less and allow you to put the proceeds into a tax-free instrument. Contribute money into a company pension plan and we will provide you with a subsidized pension and give you a tax credit on your income tax return.

But if you are poor like Linda and Kaye, and haven't made monetary contributions to a pension plan or have been kept from saving money because of poverty, any money you are able to make is neither supported nor sheltered. As I pointed out earlier, if Linda makes any money through speaking engagements, it is 100% confiscated from her income support programs. If she works, any money she makes above a \$3,500 GIS exemption is reduced by at least 50 cents on the dollar while her rent goes up. Similarly, Kaye can't take advantage of any of our tax-advantaged instruments like TFSA's or favorable tax rates on capital gains. She remains ineligible for welfare because her income level, at just above half the poverty line, is too high to be eligible for welfare and the free prescription drug card she would obtain.

So perhaps the endless tinkering that we do could be better informed by a conversation of Linda's and Kaye's rights as individuals living in poverty. It could centre on the denial of rights that comes about through 100% confiscation of benefits for Linda, and ineligibility for basic benefits for Kaye, while the rest

of our system goes through contortions to ensure that people who already have considerable money are provided incentives to save and keep their gains tax-free.

There are different kinds of contributions. There are different types of service. And there are different types of need. Perhaps that's a good starting point for thinking about basic income designs.

BASIC INCOME DESIGN CONSIDERATIONS

Until now, I have not considered the situations of individuals who currently receive social assistance. However, as I delve into design considerations, it's important to include social assistance recipients as they represent the group that will incur the highest costs in any basic income design that purports to bring all low-income people up to a recognized poverty standard.

Most proponents of a basic income would not agree with raising welfare programs up to the poverty line as the whole idea behind a basic income is to remove the web of Byzantine rules and conditions that bedevil the welfare system in the first place. Key among those rules is the immediate disqualification or reduction in benefits for recipients who don't relentlessly pursue employment or the other resources for which they may be eligible.

Figure 5 illustrates who currently receives what in the closest form of a basic income we currently have in Canada — social assistance. Many will be surprised to know that long-term trends in our social assistance include:

- greater numbers of people with disabilities receiving assistance;
- fewer lone parents receiving assistance — mostly mothers; and
- more single non-disabled persons receiving assistance.

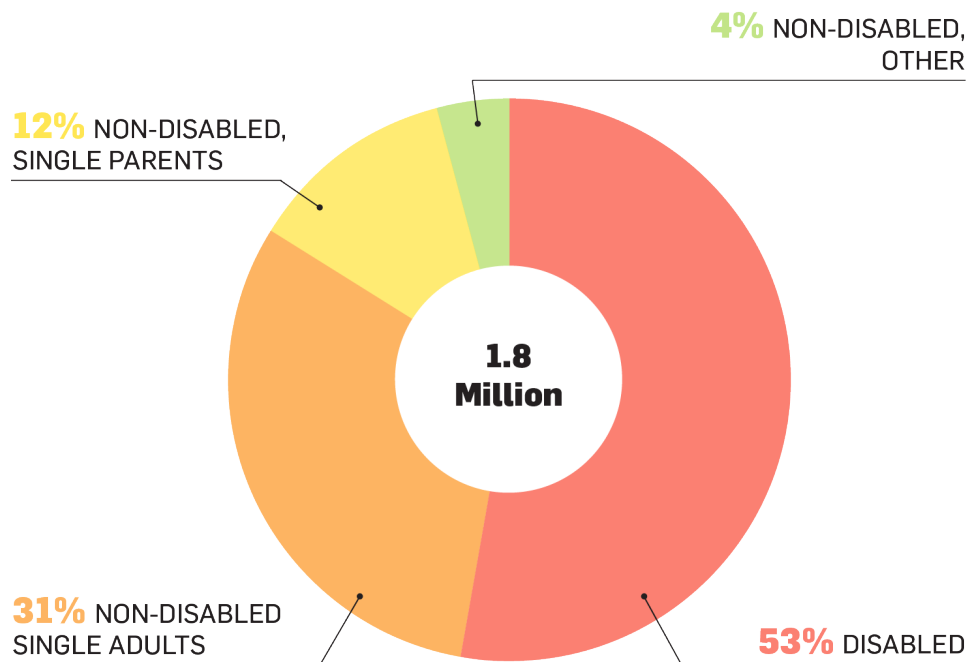
In Ontario, in 2015, there were more people with disabilities receiving social assistance than other populations for the first time since 1941.²⁵

²⁵ <http://openpolicyontario.com/wp/wp-content/uploads/2012/02/Stapleton.pdf>
<http://metcalffoundation.com/wp-content/uploads/2013/12/Welfareization-of-Disability-Incomes-in-Ontario.pdf>

SOCIAL ASSISTANCE FAMILIES IN CANADA

THE 5.1% OF CANADIANS WHO ARE POOR AND LIVING ON

FIGURE 5 SOCIAL ASSISTANCE, MARCH 2015



In Ontario, a basic income would not only remove unpopular rules (like asset-testing and 100% recovery of many forms of income), incomes would be raised by about 125% to bring single social assistance recipients to the poverty line. Disability income assistance would have to be raised by about 80%.

Raises of this magnitude would no doubt be highly controversial and the rules surrounding income exemptions would have to be significantly redesigned to accommodate such large increases.

Approaches to paying for a basic income

Some basic income proponents wish to change our entire income security system and repurpose the money we spend towards a basic income. This is somewhat similar to the idea of providing a guaranteed income to all Canadians including the non-poor. Economist Kevin Milligan²⁶ has noted that the \$500 billion price tag would basically bankrupt the country. This is largely true as the basic income alone could cost more than 20% of GDP versus the current cost that stands at about 8.5% of GDP.

Other proponents have a propensity to allow the working parts of the current income security system to be left alone. They would then use the income tax

²⁶ <http://www.theglobeandmail.com/report-on-business/rob-commentary/everyone-talks-about-basic-income-heres-why-they-dont-implement-it/article27723204/>

“Many believe that more affordable housing, lower tuition, more affordable transit, and child care spaces are a lot better use of money than raising incomes.”

system, or a new program, to bring everyone up to the poverty line or to a level somewhat higher than that.

In 2016, it is estimated that Canada spends approximately \$170 billion on income security, which is approximately 8.5% of GDP. Some proponents of an income guarantee wish to realign current programs in service of an overall guarantee that would be available to all.

This could mean a cancellation or realignment of most of our programs. They would then add approximately \$30 billion²⁷ to the realigned \$170 billion (\$153 billion in 2013) and change all rules so that the income provided would be guaranteed and paid according to an annual reckoning of income.

A third approach, as put forward by some basic income proponents, is to dismantle the present welfare system and simply add the \$30 billion needed to bring all Canadians up to the poverty line. The \$30 billion is about 1.5% of GDP and is a reasonable amount.

The problem with spending the \$30 billion is that, unless done very cleverly, it can look like a 125% increase in social assistance during a time when it has been almost impossible politically to keep welfare benefits in line with inflation. In fact, they have not kept up with inflation for the past 23 years so it is hard to imagine finding the political will to suddenly raise welfare incomes by 25 to 50 times what has been possible over the last two decades.

Another consideration comes in the form of a question: is raising incomes the best thing that one could do with an extra \$30 billion? Armine Yalnizyan, as noted in the Introduction, has contested that there are other public services that should come first.

Many believe that more affordable housing, lower tuition, more affordable transit, and child care spaces are a lot better use of money than raising incomes. Some will argue that both should be done, but the \$60 billion price tag means a revenue increase equal to \$1,739 per Canadian or \$3,478 from the richest 50% of Canadians. It all starts to sound like a lot of money. To raise that amount of money would cause a lot of pushback.

Yet it's also important to note that poverty has a cost, and that in the long term raising all Canadians out of poverty would have highly beneficial effects. For one, it would lower the costs of the health and justice systems over the long haul.²⁸

We also have to think about First Nations whose poverty is not just *income* poverty. They experience *living standard* poverty, which higher incomes alone are not going to solve. A long-term commitment from Canadians to raise living standards on reserves should be an early priority.

²⁷ <http://reviewcanada.ca/magazine/2012/12/scrapping-welfare/>

²⁸ <http://openpolicyontario.com/wp/wp-content/uploads/2016/11/Cost-of-Poverty-R10-Final-forweb.pdf>

We have to think long and hard about dismantling an array of programs that Canadians like such as CPP, OAS, GIS, refundable credits, and child benefits as well as programs that Canadians want like veterans' benefits, EI, and Worker's Compensation. Dismantling programs that Canadians know well and are used to will not be easy to do and many would question if the glow of a basic income would be reason enough to dismantle programs that many believe are helpful and adequate.

"...many would question if the glow of a basic income would be reason enough to dismantle programs that many believe are helpful and adequate."

The complicated web of income security programs for persons with disabilities

In all of the discussions of a basic income over the years, many have said that Canada could start with a basic income for people with disabilities. In fact, it would seem a lot easier to mount a basic income for people with disabilities for two reasons:

1. It is cheaper — less than \$10 billion nationally as opposed to \$30 billion for everyone.
2. Few are worried about work requirements for people with disabilities. In other words, the public would not be concerned that people with disabilities should be forced to work to obtain income assistance, in the same way they would for people without disabilities.

But it is very hard to take a logical first step towards a basic income for people with disabilities because there are nine separate disability income systems in Canada:

- Social assistance
- Workers' Compensation
- The Disability Tax Credit
- Veterans' programs
- Private programs
- CPP — Disability
- EI sickness
- Registered Disability Savings Plan
- WITB-D

These systems have the same problems as the other programs as well as a few of their own. Canada's disability income system pays out almost \$32 billion in benefits, yet is largely not directed (by design) to low-income people. It provides only temporary benefits under half of its programs, and is largely inadequate and only partially indexed. It exhibits a growing "market share" represented by inadequate social assistance benefits, is largely based on previous or current employment, and is constitutionally entangled.

Accordingly, it would be no easier to mount a basic income for persons with

disabilities than any other subset of the population. However, with a \$32 billion base and with political will, it would be far easier to disentangle current programs.

Should all parties concerned agree to the creation of a commission to tackle disability income system transformation, supported by all levels of government and private and non-profit sectors, there is reason to be optimistic that there is a way forward to a coherent set of policies that could guide us through a successful transformation.²⁹ This could be our best first adoption of a basic income.

²⁹ <http://metcalfoundation.com/wp-content/uploads/2013/12/Welfareization-of-Disability-Incomes-in-Ontario.pdf> p.30.

CONCLUSION

Having reviewed Canada's current income security system and considered how a basic income might work, it is important to circle back to our profiles and draw some conclusions as to what could and should be done.

Clearly, two of our profiled examples are not poor. My father illustrates the situation of not just a better off senior, but an example of a person where it would be very difficult to reduce the amount of income he receives now even though he is not poor. But Lorraine, although not living in poverty, has only a small margin of income that keeps her out of poverty. Unless everything else works out in her life, she could easily be forced into poverty.

Lorraine receives almost \$16,000 in refundable credits. She has very high shelter costs and is dependent on an arrangement for inexpensive child care with a relative. For Lorraine, higher income security benefits don't appear to respond to the expenses she faces. What she needs is more affordable housing and child care, not necessarily more income to pay for these needs.

For Linda, who already has affordable housing and a number of her other needs met — such as prescription drugs — an extra boost in her income through the OAS and the GIS would appear to be an appropriate solution.

But raising incomes for people like Linda will not solve the debilitating disincentives she experiences when trying to gain a little extra income. Whereas my father can increase his income with favourable tax implications, Linda faces clawbacks that range from 80% to over 100%. These massive disincentives comprise a major flaw in our income security system — especially for the very poorest in our society.

Finally, we have the strongest case for a basic income in the case of Kaye. She lives and works in very deep poverty and she faces an income security system in which there is very little for her. Although she is occupied full time with work and with keeping her rent low in a co-op through participation in upkeep, she also earns very little income. It is really the Kayes of the world who are working poor, and her counterparts receiving social assistance, for whom a basic income is most urgent.

As Canadians, if we are not able to mount a grand design for a basic income, we should redouble our efforts on behalf of single persons living in poverty by both improving incentives to work and save and establishing adequacy at levels that exceed all recognized poverty standards. We do not need a complex set of rules. And we do not need to keep asking the poorest among us to constantly justify why they are living in poverty. What we need is

“...we should redouble our efforts on behalf of single persons living in poverty by both improving incentives to work and save and establishing adequacy at levels that exceed all recognized poverty standards.”

“...we cannot forget how critical the needs are of those whose incomes fall considerably behind any poverty standard.

An increase in spending of \$30 billion...would equal just 1.5% of GDP. This could effectively end income poverty in our country. Few nations could end poverty more easily than ours.”

comprehensive action *now*.

For the Kayes of the world, the best way to achieve both adequacy and equity is through our current array of refundable credits. They should be extended, as soon as possible, to those who live on their own. This includes the GST, Trillium, and the WITB refundable tax credits.

In addition, we cannot forget that First Nations have living standard poverty in addition to income poverty and that a basic income for land-based First Nations people may have merit. It must be integrated into efforts that bring education, housing, and basic utilities to First Nations. In this respect, the Ontario Basic Income pilot proposals from Hugh Segal include First Nations and could be a very promising beginning.

Finally, as papers and reports continue to be written about the topic of basic income in increasing numbers, we cannot forget how critical the needs are of those whose incomes fall considerably behind any poverty standard. A basic income should therefore start with those who need it most and whose income security is most threatened.

An increase in spending of \$30 billion, to bring everyone in Canada up to the LIM-AT, would equal just 1.5% of GDP. This could effectively end income poverty in our country. Few nations could end poverty more easily than ours.

A Basic Income for Canadians

What would change?

Toronto: January 2017

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