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SPOTLIGHT

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Ottawa needs to act on a proposal for a guaranteed basic income for P.E.I.

The highly touted GBI plan could be a model for other provinces, but it will take full cooperation between federal and provincial governments.

AUGUST 28, 2024





Downtown Charlottetown in May 2023.

Canada has made little progress in reducing poverty over the past 50 years. In 2019, the relative income poverty rate among the working-age population was 11.4 per cent, up slightly from 10.3 per cent in 1976.

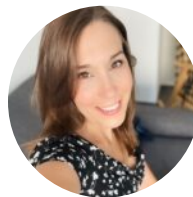
This is despite the fact that Canada: (a) spends substantially more on aggregate social expenditure as a percentage of GDP today (18.8 per cent)



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than it did in the 1980s (13 per cent) and (b) has radically reduced poverty among seniors and children thanks to generous, unconditional income support programs for those groups.

Recognizing Canada's stubbornly persistent working-age poverty rate, the federal government adopted a national poverty reduction strategy in 2018 and a commitment to reduce poverty by 30 per cent by 2030.

This necessarily involves getting more money into the hands of those below the poverty line, including the working poor and long-term unemployed.



An obvious policy instrument for doing this – one that is being increasingly advocated – is a guaranteed basic income (GBI).

In a recently published report, *A Proposal for a Guaranteed Basic Income Benefit in Prince Edward Island*, we – along with other economists, federal and provincial politicians, and public servants at both levels – advocated a GBI for working-age adults jointly supported by the federal and provincial governments and administered via the income tax system.

We call upon Ottawa to follow through on its agreement earlier this year to participate in a

federal-provincial
working group on the
issue by taking all
necessary steps to
implement such a GBI,
which would mark a
huge step forward in
eradicating poverty in
P.E.I. and improving
the lives of
beneficiaries as well as
those of their children.

Success here could also
be a model for other
provinces to follow.

Poverty rate would fall without major costs





A unique innovation of
our proposed GBI is the
use of census family
income rather than
nuclear family income
to determine the
benefit amount and

reduction rate. This would help target the neediest families.

Currently, social support in the federal system is delivered using a family model for estimating net income, which counts adult children living with their parents as distinct families. Our team suggested an innovative way to move forward – using the census definition, which includes adult children living with their parents to all be part of one family.

We propose the GBI to be set at 85 per cent of the federal poverty line with a benefit-reduction rate of 50 per cent based on census family income. Our

report shows this would reduce the poverty rate among working-age Islanders to nearly two per cent from 10 per cent at a gross cost of only \$188 million annually.

-  **Book | *Basic Income and a Just Society***
-  **The troubling rise of income and wealth inequality in Canada**
-  **Artificial intelligence + basic income = Canadian innovation**
-  **For P.E.I., a model for a guaranteed basic income that is feasible and affordable**

We also show that the net cost of this new program would be about \$100 million because of reductions in social assistance and other income-tested benefits.

To put this into context, P.E.I.'s estimated total government expenditure in 2023-24 was about \$3 billion.

We also provide estimates for how P.E.I.'s share of the costs could be addressed by adjustments to top income tax and sales tax rates while ensuring that low and middle-income families experience an increase in income.

In November 2020, the special committee on poverty in P.E.I. recommended implementation of a federal-provincial guaranteed basic income program in the province, and the legislature unanimously approved the idea.

In response, our group of economists, public servants, politicians and advocates spent two years studying the issue and preparing this report.



In support of P.E.I.'s work to deliver a province-wide GBI, the federal-provincial working group has been established and begun to meet, primarily to enable the exchange of survey and administrative tax data.

The creation of such a group marks an important step forward in improving Canada's income security system because implementation of a GBI hinges on the successful co-operation of federal and provincial governments.

Ottawa has a key role to play

Why?

First, any province would find it difficult to finance a GBI without assistance from the federal government.

As demonstrated in the P.E.I. report, the proposed sources of tax financing within the province cover only about 25 per cent and 50 per cent of the gross and net costs of the GBI expenditure, respectively.

Moreover, the British Columbia Expert Panel on Basic Income recommended against a province-only GBI partly because of cost.

A short-lived Ontario basic income pilot project was set up in 2016 on the assumption that it would be an Ontario-

alone program. Its premature termination was arguably partly based on the financial burden of a full-fledged GBI to the province.

Second, the *Constitution* does not assign legislative responsibility for the provision of income support to either the federal or provincial governments. Instead, the two levels of government share this responsibility.

The federal government provides income support to the elderly and families with children through the old age security (OAS), guaranteed income supplement (GIS) and the Canada child benefit (CCB)

programs, respectively. It is now in the process of introducing income support for the disabled through the Canada disability benefit.

The provinces administer social assistance and disability payments for the long-term unemployed while both levels of government provide general support to low-income Canadians through a variety of refundable tax credits.

Two-tiered system must end

This has resulted in a two-tiered system in which the groups that fall under federal jurisdiction – seniors

and children – tend to have access to more generous income assistance than those who depend on the provinces. For example, able-bodied low-income workers and the long-term unemployed receive little support.

Federal-provincial coordination of a GBI can be achieved by harmonizing the benefit across the two levels of government, much as the two levels of government do now with income and sales taxes.

Under the tax collection agreements, the federal government chooses the tax base and collects taxes on behalf of the provinces

through the Canada Revenue Agency, while the provinces are free to choose their personal tax rate structures, provincial corporate tax rates and tax credits within limits.

Similarly, provinces can harmonize their sales taxes with the federal GST by adopting a harmonized sales tax (HST), which effectively uses the federal base while allowing provinces to set sales tax rates. Such a system retains a common tax base while allowing provincial discretion, and therefore accountability, for provincial tax rates.

Our proposal for a P.E.I. GBI would follow this harmonized procedure and be the model for other provinces. The federal government would choose a federal GBI, and the provinces would be free to augment that with a provincial GBI while adhering to the same benefit-reduction rate.

Our report argues for the maintenance of the current social assistance system in the province for the provision of GBI-level income support to persons whose income has fallen unexpectedly and who would not be eligible to receive a GBI until they have filed a tax return with the CRA.

We believe our proposed GBI would be a highly effective poverty-reduction tool while at the same time being fiscally responsible.

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