FACTSHEET

Beyond the Basics: Guaranteed Livable Basic Income & Bill S-233

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The Financial Costs of a Guaranteed Livable Basic Income

There are two ways to look at the cost of a Guaranteed Livable Basic Income (GLBI). The first examines the upfront costs of delivering the program and various ways to finance these costs. The second is to recognize that GLBI is an investment in the community that will pay off in terms of less pressure on existing social programs and higher tax revenues for various levels of government.

Upfront Costs

One criticism often made of GLBI programs is that they are very expensive and likely to lead to a significant increase in the tax burden that will make the middle class worse off. Some proposals do precisely that: they estimate very high program costs and suggest financing these costs by raising taxes and eliminating tax credits that benefit the middle class. The Basic Income Canada Network (BICN) has documented the impact of the decisions involved in designing and resourcing a GLBI.

The Parliamentary Budget Office (PBO), for example, considered a program that would guarantee individuals between 18 and 64 an annual income of $16,989 and couples $24,027, reduced by $0.50 for every dollar earned. That is, the total amount of money received by any family would decline as their earned income increased, disappearing entirely for individuals at $33,978 and for couples at $48,054. People with disabilities would receive an additional $6,000 per year. As a consequence, poverty rates would fall by 49% and the incomes of the poorest 20% of Canadians increase by $4,535 or 17.5% each year.

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This, however, would come at a very significant cost of $87.6 billion per year. In order to fully pay this cost, the PBO suggested eliminating a variety of tax credits often used by the middle class, which would make the poorest 40% better off but leave 60% of households marginally worse off.[1] The PBO also considered potential savings from provincial income assistance programs.

This design was based on the Ontario GLBI experiment. There are other ways to design a targeted GLBI. For example, the way in which adult children living with their families are treated might be changed. In the PBO calculation, benefits were based only on the income of an applicant and their partner, if they had one. However, this implies that adult children living with their parents in high-income families might receive support even though their parents would not qualify. This need not be part of the design. Benefits could be calculated based on the census family, in which adult children living with their parents receive a benefit based on total family income. If their family income is high, adult children living at home would not receive a benefit even if their own earnings are low. This design allows young people who are parents or are working and living on their own to receive necessary support, while ensuring that adult children living in families with adequate means do not.

This design could reduce costs by 40% while raising benefit levels and reducing the poverty rate by as much as the PBO design.[2] For each dollar earned, benefits would fall by $0.50. Children under 18 would continue to receive the Canada Child Benefit, and seniors would receive OAS and, if they qualify, the Guaranteed Income Supplement and/or Canada Pension Plan. With this design, no current beneficiary of social programs would be worse off and most would be substantially better off. Deep poverty is virtually eliminated, and the poverty rate would decline by approximately the same amount as the PBO design.

The upfront cost of delivering a GLBI is very dependent on details. This example demonstrates substantial savings associated with one change in the definition of the family that reduces the gross costs to a level similar to other government expenditures that have been enacted.

It is, however, the net costs of the plan that are important. Approximately 5% of the population under 65 currently receives provincial social assistance. Since a BI would reduce the need for provincial social assistance, part of the necessary funding for a GLBI could come from the provinces.[3] The rest could be paid for by progressive tax changes that primarily affect the highest-income earners. Middle-income earners and, in particular, seniors need not bear the burden.

[1] Annual after-tax and transfer income for the top three income quintiles fell by about $1,600 on average.

[2] For families with three or more adults, the maximum benefit is calculated by multiplying the maximum benefit for a single adult by the square root of the number of adults in the family. The “square-root rule” is used in benefit design around the world to account for “economies of scale” – it costs less for two people living together to meet their basic needs, than for each to live separately. The numbers are from 2022.

[3] Note that not all of the provincial income assistance budget could be diverted because the provinces would still be responsible for province-specific and emergency needs, as well as services for people with disabilities.

Return on Investment

Past BI programs have generated a wide range of positive outcomes on education (e.g., schooling, skill training), health (e.g., physical health, nutrition), entrepreneurship (e.g., employment), social integration (e.g., civic engagement), subjective well-being (e.g., emotional wellbeing, mental health), assets (e.g., income, savings), and housing (e.g., housing stability), but with no significant increases in spending on temptation goods (e.g., alcohol, drugs), in both the developing world and the developed world.

A GLBI that reduces poverty would have substantial and far-reaching effects both on the families whose lives are transformed and on society at large. A conservative estimate of the costs of poverty is 4% of GDP, or approximately $80 B annually.[4] These costs include reduced economic growth and higher costs in our healthcare and criminal justice systems, as well as costs borne by others.

One third of these costs are borne directly by the government in the form of lower tax revenues and higher expenditures. A program that substantially reduces poverty will enhance economic activity and improve the health and wellbeing of the population making it at least partially self-financing over time.

Estimating the social return on investment (SRO), or the amount that could be saved by investing in a GLBI, is more challenging than estimating the upfront costs because of the uncertainty associated with how much and how quickly the costs of poverty might fall. The Community-University Institute for Social Research at the University of Saskatchewan used a design similar to the PBO and the best information available to estimate the Social Return on Investment at 1.06. In other words, every dollar invested in a GLBI generates $1.06 in savings.

GLBI can reduce the fiscal burden on the government because recipients who become more financially independent rely less on social and health services. A recent Vancouver study of unconditional cash transfers to homeless individuals has demonstrated the $7,500 cash transfer generated savings of $8,277 per individual per year (a 110% return) via reduced reliance on social and health services. The $777 net savings suggest that a carefully designed basic income program can be cost-effective, saving governments and taxpayers money.

[4] According to the Homeless Hub, poverty costs Canada between $72 and $84 B annually. Earlier estimates place the cost of poverty at 6.6% of GDP.

Key References

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