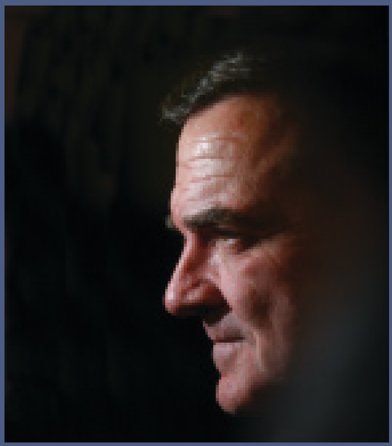
GUARANTEED ANNUAL INCOME: WHY MILTON FRIEDMAN AND BOB STANFIELD WERE RIGHT



Hugh Segal

In this article, former IRPP president Hugh Segal considers the merits of a guaranteed annual income or a negative income tax, an idea whose time may never come, but which always generates a good debate. It's a concept where thinkers on the left and right have found some common ground, from conservative economists such as Milton Friedman in the United States, to Red Tories such as Robert Stanfield in Canada. "If it is done right," Segal argues, "instituting a basic floor income could diminish federal-provincial and labour-management tensions" and could even, "over time, reduce the net burden of state spending while increasing aid to, and the privacy and dignity, of those who fall behind."

Dans cet article, le sénateur Hugh Segal analyse les mérites d'une idée qui ne se concrétisera peut-être jamais mais qui suscite toujours un riche débat, à savoir le revenu annuel garanti, ou impôt négatif sur le revenu. Cette idée a rapproché de nombreux experts de gauche comme de droite, qu'il s'agisse d'économistes conservateurs comme l'Américain Milton Friedman ou de « conservateurs sociaux » comme le Canadien Robert Stanfield. « L'application adéquate d'un revenu minimum de base pourrait amoindrir les tensions fédérales-provinciales et patronales-syndicales », croit Hugh Segal, voire même « réduire le fardeau net des dépenses gouvernementales tout en favorisant le soutien, le respect de la vie privée et la dignité des laissés-pour-compte. »

It was at a Conservative policy conference at Niagara Falls in 1969 that, based on a paper from the research office, Robert L. Stanfield and his party first reflected on the benefits of a more efficient and humane income security system implied by a guaranteed annual income (GAI). The paper envisaged an eventual end to rules-based, overlapping income security programs at the federal and provincial levels in favour of a negative, income-tax-based universal income floor, responsibly above the poverty line, available to all Canadians, when and only when they fell beneath that line.

I was 19 at the time. The paper, as then presented, suggested practical efficiency and humanitarian reasons for this more holistic approach to equality of opportunity that appealed to me then and have stayed with me in every political assignment I have accepted since.

Canada, unlike the United States, does not define an official poverty line. There is no official demarcation identifying one individual as poor and his neighbour as well-off. In Canada the low-income cut-off (LICO) determines the threshold below which a family would find themselves in "straitened circumstances." The LICO is most often used as the surrogate of a poverty line in studies.

The LICO is dependent on a before-tax income varying with family size and geography. Where in the country do you live? What is the population of your community? How many people living in your home are related to you by blood, adoption or marriage? What is your household income before taxes? Yet even Statistics Canada warns against using the LICO as a measure of poverty. This caution is echoed by Christopher Sarlo, a senior fellow with the Fraser Institute and a Nipissing University economics professor. He stated in a 2006 press release regarding his report on poverty: "All too often, claims about the number of poor in Canada are based on Statistics Canada's low income cutoff lines... However, Statistics Canada repeatedly warns that it is not a poverty measure but rather a 'relative' measure of how well off some Canadians are compared to others." He goes on to say: "Poverty is fundamentally a problem of insufficiency, not inequality. If we want to understand how Canadians are doing, we need to know how many of our fellow citizens cannot afford the basic necessities of life.”

I largely agree with his first statement. I am afraid I do not agree with the “basic needs” approach as a definition of poverty. I take the view that the LICO has its drawbacks, but then so does the “basic needs” approach. Measuring poverty by determining only the level of income individuals or families need to buy the basic necessities of life, such as food, clothing, shelter and other “essentials,” implies a life of mere subsistence, which none among us would wish for ourselves or those we love. Designating as the cutoff the amount needed to buy food and shelter does nothing to address the stigma or marginalization of poverty. We all worry about the child who senses that everyone else in the class can afford to go on a field trip, so he or she has at an early stage in life the sense of being outside the mainstream. Marginalization is a trap that can perpetuate poverty and the negative pathologies that come with that trap, which sap economic efficiency and productivity. Neither the LICO nor the “basic needs” perspective moves us ahead — or breaks the cycle of inertia on poverty that we need to address.

“Poor” is indeed a relative term. Individuals who live below an average standard of living are considered poor, but we must determine by whose standard of living the comparison is made. Obviously a poor rural Canadian is often much better off than his or her counterpart in the Third World. Canada’s social safety nets, considered some of the best in the world, even by industrialized nation standards, do in fact prevent the worst instances of absolute poverty.

But Canadians do not measure themselves against the Third World, they measure themselves against their neighbours. You and I are neighbours of the poor. By using terms such as “straitened circumstances” or “economically disadvantaged,” we insulate ourselves against the individual life choices — or lack of choices — of the child, the single mother, the senior and the Aboriginal person; these descriptive terms make it easier to ignore rather than address the circumstances at the root of the problem; and ignoring poverty is not a good thing for a productive and humane society.

It is hard to fault the motivation of the academics, civil servants and politicians who crafted, at various times in our history, separate rationales, policy frameworks and operative regulations for different programs designed to address income needs resulting from different circumstances and for different reasons. But in the end, whether one injures one’s back at a job site or sees the local steel mill or cod fishery shut down, the issue is lack of income. The disruption to family security, the threat to a marriage’s stability, the collapse in local buying power all occur because adequate income is gone.

Whatever the reason for the collapse in income, the local cost of living respectably above the poverty line does not change by virtue of one’s eligibility for program A or ineligibility for program B. Letting the condition of people’s lives filter its way through regulation-driven programs until it lands in the welfare catch-all — itself highly regulated and dependent on provincial and municipal particularities — is an abdication of the core question of individual dignity and self-respect. When companies and governments buy out senior employees, the main item in the severance package is always transitional income. The case for the status quo in government assistance might be sustainable if it could be argued that the present spiderweb of programs (sticky enough to entrap but not strong enough to support) had produced real progress, less poverty overall, higher levels of return to the labour market, greater independence and increased consumer confidence. Sadly, there is no such productive progress to report.

Incomes collapse for a host of reasons: illness, infirmity, a pause to re-educate or build skills, age, youth, local and massive job evaporation, addiction and lack of education or training. The principle that every citizen should have the right to dependable bridging support at livable levels when there is income collapse is a fair balance to the principle that the state has the right to deduct tax at source from the income an individual earns. It would be the ultimate socialist excess to suggest that the state has an a priori right to take money from the salaried citizen for its general purposes, but has no concurrent obligation to respond to a citizen’s income collapse.

The way governments bureaucratically seek to determine why income has collapsed still seems to carry with it a moral judgment about the person whose income it is. Poverty is not a moral failing — as many narrow and moralistic 17th and 18th century social prejudices held. Poverty has many causes — not all of which are within our ability or purview to solve. But poverty is about not having enough to live on with self-respect, dignity or hope. When our incomes go up, Her Majesty just takes more — it’s called progressive taxation

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— and that is how our system operates. And, within the frameworks of reasonable and progressive taxation, I accept that — however I may differ with some on what “reasonable” means. But when income collapses, welfare officers and civil servants have a million questions before folks get what they need: are you unemployed; how long, where, for what reason? Have you been widowed? Are you part of a First Nation, on or off the reserve? Are you handicapped? And on and on. There are thousands of civil servants, forms, questionnaires, interviews, bank account audits — checking into whether you live alone or with someone — all cost person-years and millions upon millions that never actually get to the poor themselves.

Those who argue that a guaranteed annual income/negative income tax would break the bank should first reflect on what we are now spending, in some cases quite wastefully. The Macdonald Royal Commission on the Economic Union and Development Prospects for Canada (the same one that rightfully called for a leap of faith to free trade) reviewed the income security spending of the 1980s. Highlights included unemployment insurance (UI) at $11.6 billion, Old Age Security at $11.4 billion, pension-related tax exemptions and deductions at $7.6 billion, social assistance at $6.6 billion, family allowance at $2.4 billion, child tax exemptions at $1.4 billion, a child tax credit of $1.1 billion and married exemptions at $2 billion. To include the basic exemption — which is supposed to reflect the progressive nature of our tax system — would have added another $14 billion. This still leaves out native programs, veterans’ pensions and training allowances. In fact, when combined with provincial expenditures, and excluding the personal basic tax exemption, the total reached $61 billion — and that was 25 years ago.

Today, according to 2004 numbers and based on available data, the total government (both federal and provincial) transfer payments to persons were $130 billion, more than double the Macdonald Commission numbers — excluding health care and education: employment insurance (EI) at $13.3 billion, Old Age Security at $28 billion, social assistance at $10.3 billion, child tax benefit or credit at $8.5 billion and the GST tax credit (paid to persons making less than $30,000 per year) at $3.4 billion. So replacing some of these with a more humane and efficient negative income tax is hardly a question of wasteful or even new spending. There are large, well-intentioned spending machines now operating under a huge range of different rule books and eligibility criteria. And the numbers I cite are the ones currently available — to obtain more specific numbers relating to subsidized housing or subsidized daycare, one would need to research on a city-by-city basis. Needless to say, the real numbers are overwhelming and larger.

Governments have felt comfortable with programs that respond to income collapse only for collectively defined statutory groups (“unemployed,” “aged,” “handicapped,” “injured in the workplace,” “veteran,” “child”), largely because those were seen as the categories for which voters would accept income support. A decade after the conference I attended at 19, I served as principal secretary and then associate cabinet secretary at Queen’s Park when the Davis government brought in the guaranteed annual income supplement for seniors: a holistic response to a compelling and measurable problem of indigent seniors, largely female, facing the unacceptable prospect of prolonged poverty. While Ontario’s was a more generous response than Ottawa’s laudable but meagre guaranteed income supplement introduced in the 1960s, it was flawed in many ways. It was one initiative in one province, limited to one age segment. It topped up existing programs for which meaningful long-term guarantees were, as we have since learned thanks to 1990s federal cutbacks and transfer “re-profiling,” largely illusory.

In that regard, it simply mirrored what has been wrong with income security policy in Canada for some time — namely, the failure to design a framework that responds to income collapse without regard to age, occupation, location, employment or disability — and which does so nonjudgmentally, respecting privacy and without excessive bureaucracy.

I am a Conservative and a relatively enthusiastic capitalist. Those of us who favour the freedom to invest and thus expand and change the economic framework in order to liberate forces of excellence and growth cannot have it both ways. One cannot, with technology and global supply chains, radically alter the structure and nature of work, and thus the sources of economic stability for the average wage earner, without at the same time redesigning the framework for income stability to make it more supportive of the user and less biased toward the bureaucracy. Continuing to approach income security by norms of the 1960s, when life, work and income cycles are so drastically different, is utterly unrealistic. Radical change, for the better, to a global economy where profits accrue because input costs are competitive cannot proceed apace as it should, without the provision of transitional security for those whose jobs are affected by the change.

Are you part of a First Nation, on or off the reserve? Are you handicapped? And on and on. There are thousands of civil servants, forms, questionnaires, interviews, bank account audits — checking into whether you live alone or with someone — all cost person-years and millions upon millions that never actually get to the poor themselves.

It would be hard in any area of public policy to find one approach that could count among its supporters Sir Winston Churchill, Richard Nixon, Donald S. Macdonald and his royal commission on our economic prospects, Milton Friedman, Robert Stanfield, Senator Patrick Moynihan and Linda Frum, but a basic income floor, or a negative income tax, would meet that test.

I agree with Churchill, who abhorred the state imposing limits on how well one can do — but also attested to the need for a clear income "balustrade" against which all could lean when trouble hits. It was a Liberal senator, David Croll, who led a Senate committee study on poverty, which reported in 1971. I quote him now:

> *If the social welfare business of Canada had been in the private sector, it would have long ago been declared bankrupt. The reasons are not hard to find. Resistance to change, a stubborn refusal to modernize its thinking, a failure to understand the root causes of poverty, inadequate research and the bureaucracy digging in to preserve itself and the status quo, are some of the basic causes of the dilemma in which we find ourselves today. Harsh words? Yes, but they apply with complete accuracy to the situation in Canada. We are pouring billions of dollars every year into a social-welfare system that merely treats the symptoms of poverty but leaves the disease itself untouched.*

That was Senator Croll speaking at the Empire Club in 1972 — 36 years ago and more than a decade before the Macdonald Commission report. And let's think about the coming demographic reality: Canada will very soon be paying a large portion of its population Old Age Security benefits and the guaranteed income supplement for lower-income seniors. By the year 2020 (just 12 years from now) the demographics will have jumped to 18 percent from 13 percent for those aged 65 or over — and if the employed population demographic remains constant, only 49 percent of the population will be employed full-time to help finance this particular and important obligation. Ottawa would need to come up with an additional $12 billion for this payout alone — which is currently $31 billion.

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Robert and Mary Stanfield at the Progressive Conservative leadership convention in 1967. Throughout his tenure as Conservative leader until 1975, Stanfield was known as a Red Tory who entertained progressive ideas such a guaranteed annual income.

The theory of "path dependency" suggests that it is easier to continue on in an existing furrow than to propel oneself out of that furrow to head in a new direction. This is especially true of entrenched bureaucracies, however well-meaning. The bureaucracy tends to follow the classic incrementalist, or "Goldilocks," approach to public policy. Policy A is too extreme or too expensive; policy C is utterly impossible in the present context; and the incrementalist policy in the centre (policy B) is just right! In all bureaucracies, private or public, provincial, federal or municipal, the apostles of inertia usually rely on a gospel of complexity.

But the twin forces of unimpeded, planet-wide capital mobility and the massive diffusion of information technologies mean the end of the traditional work pattern, as part of both the life cycle and the earnings and savings cycle. This will continue to mean huge economic dislocation for millions of people in the industrialized world, including too many people in Canada. In regions with traditional and thus declining industries — fisheries, lumber, pulp and paper, mining, manufacturing and refining — employment devastation is particularly oppressive. The notion that one's eligibility for support is to be determined by some 1960s-based statutory or regulatory attachment to a subgroup — the handicapped, children, the aged, the narrowly defined unemployed or welfare-eligible indigents — does much for social work caseloads and program designers but very little for self-respect and personal dignity. There is a better way.

A bias that subjects those needing regular income to make ends meet in the new millennium to 1960s rules, categories and programs, while allowing those with capital to invest to benefit fully from all the potential of 21st-century technologies, is a recipe for serious social dislocation. Income gaps will grow. Intergenerational pressures will build up. Levels of social civility will decline as levels of criminal activity, nonviolent and otherwise, will increase. The price the poor pay for the continued sclerotic and inefficient nature of our federal and provincial income security programs is, in human terms, very high. The price the rest of society pays for the pathologies often associated with poverty is frightening, expensive and destructive of productivity:

- The poor get sick first and stay sick longer.
- The poor have more serious literacy problems.
- The poor are more often involved in crime, substance abuse and are wildly overrepresented in our expensive and expanding jails and penal system — and produce the largest amount of the workload for our police forces.

Police, judges, Crown attorneys and prison officials across Canada talk to me about the futility and cruelty of this cycle all the time.

And while there have been modest innovations in some areas of social policy — such as the child tax credit, the guaranteed annual income supplement for seniors, the working tax benefit incentive recently introduced by Finance Minister Jim Flaherty, and a series of incremental provincial initiatives — the truth is that the number of poor and working poor living beneath the poverty line has not diminished. While folks have moved in and out of poverty, for too many Canadians poverty is intergenerational and quasi-permanent.

Milton Friedman, the Nobel-prize-winning economist, had a view of government that can be summarized with one of his more famous quotations: "If you put the federal government in charge of the Sahara Desert, in five years there'd be a shortage of sand." That is why he proposed a negative income tax more than 40 years ago. In an essay titled "Is Capitalism Humane?" Friedman said that "a set of social institutions that stresses individual responsibility, that treats the individual...as responsible for and to himself, will lead to a higher and more desirable moral climate." His belief was that the individual was more able to manage his or her money than the bloated government bureaucracies, and his intention was to create a system that cost less than the welfare system, but that avoided the degrading nature of welfare. He argued that a negative income tax would be administratively cheaper and more effective, and it would remove the intrusive and offensive nanny-state over-regulation of the lives of the poor. He was right then; he is still right now.

It is not hard to understand the bureaucratic bias for incremental, group-based, specific supplement solutions. We need only reflect on how our social policy history on income security has always favoured a piecemeal approach.

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Prior to the Second World War, mother's allowances, workmen's compensation and early forms of unemployment insurance began. Following the war came family allowances and elderly benefits (universal at 70, and means-tested between 65 and 69). Special social assistance was introduced for the blind, the disabled and the unemployed not eligible for UI. In the 1960s, the pace quickened: Canada Pension Plan (and Quebec Pension Plan) and the Canada Assistance Plan in 1966. A host of federal labour-market programs aimed at job creation and training were developed and Old Age Pension eligibility lowered to age 65. The guaranteed income supplement for seniors was introduced in 1967 and the UI program was significantly expanded in 1971. But this approach — when one now includes the myriad of other programs, provincial and municipal — has evolved into a series of complicated and demeaning mazes to be navigated by those least able to figure out the system. Let's be clear, employment insurance — as redefined in the 1990s, so that it helps only about 25 percent of the genuinely unemployed — has a huge, multibillion-dollar surplus. If it is done right, instituting a basic income floor could diminish federal-provincial and labour-management tensions. If it is done right, it could, over time, reduce the net burden of state spending while increasing aid to, and the privacy and dignity, of those who fall behind.

But that debate could acquire new significance and urgency if someone had the courage and will to put the goal of a consolidated negative income tax credit on the public agenda. Its benefits would be enormous. Billions of dollars now spent on group-related social programs would be spent far more efficiently as the costs of bureaucracies and caseloads in many of these programs were eliminated. The implicit assertion of the dignity of all citizens without state über-judgment or meddling would be affirmed.

What of the argument that such a program would produce disincentives to work? Critics who make that argument level the same charge against the current system, with its plethora of employment insurance, welfare and income supplement programs.

For some in government and academe, a basic income floor is too troublesome, too bold a stroke and insufficiently deferential to all that has come before. But we live in an age where economic, technological and industrial policy is changing at precisely that rate and in that way. There is no reason that policies that address the dignity and self-respect of all people, regardless of age, sex, ability, health or walk of life, should fail to keep pace.

The mechanics of a GAI administered through a negative income tax need not be rocket science. We currently have the needed system in place — it could, like the GST tax credit, be automatic upon filing your tax return. The gap between living respectably above the poverty line and what anybody would call "beneath the poverty line" would be deposited by the Canada Revenue Agency automatically in folks' accounts as the GST tax credit is now. The GST tax credit could be renamed the "negative income tax credit" and funded with part of the EI surplus to prime the pump. Incentives to file would go up. Privacy of recipients would be guaranteed and in fact protected by law. Integrity of filings would be underlined by the existing fraud penalties in the tax act — which are serious. Ottawa could administer the program easily through the Canada Revenue Agency, with agreement from the provinces, just as it collects taxes for nine provinces and three territories now. A myriad of other costly, means-test-driven, demeaning, overlapping, duplicating and excessively bureaucratic federal, provincial and municipal programs could be phased out over time as individuals applied through their tax return for the negative income tax credit. As tax filers in a province filed and received the federal top-up in year 1, the next year's federal transfer to the province for social-welfare-related programs (excluding health and education) could be reduced accordingly. Provinces could reduce welfare programs, as could cities, not to mention — over time, with attrition and demographics — winding down bureaucracies.

If governments in the Western world have made a core mistake since the Second World War, it has been in our propensity to design a programmatic solution to every challenge, in our desire to over-intellectualize and over-design micro-interventions in people's lives. It is a well-intentioned mistake made by Labour, Republican, Conservative, Gaullist, Socialist, Democratic, Progressive Conservative, Liberal and Christian Democratic governments alike — each in different ways, and all with positive intent.

A negative income tax embraces the simple solution that if a tax filer has insufficient income to live above the poverty line — which may differ by circumstance, region and context, according to numbers that we already have in our databases — he or she is topped up over that line. No massive program; no massive intervention; no public means test or interrogation at the welfare office; no embarrassment; less fraud; more dignity and self-respect.

Poverty is, as I said at the outset, about money: health care systems, universal access, education for all — these help at the causal and symptomatic ends of the spectrum. A negative income tax helps at the actual point in life when help is most needed. Education is about the future; health care is about dealing with the results of prior and ongoing poverty; a negative income tax would deal with those who are poor *now*. It is practical. It would be a mark of civility and humanity. It would be Canadian policy leadership that could move the world ahead and, above all, change the lives of millions of Canadians — our fellow citizens, our neighbours, members of the Canadian family.

We cannot tolerate partial generations with their noses pressed up against the window of a society they cannot afford to join. We can end the poverty line for millions in urban and rural Canada, and say to all our fellow citizens, we know the cost of food, shelter, heat, clothes and can ensure that none among us will have less than what is respectably necessary. And with this great, productive, efficient step ahead — we can underline our society's values, our decency, our small-c Christian respect for the human condition, our embrace of Disraeli's view that, whether rich or poor, we are all one economic family — organically linked to one another. The old solution, the old pathology, the old demeaning approaches are not good enough anymore.

A modern, productive and economically value-added country requires a clear, efficient, sustainable and direct means of bridging citizens who fall behind; on a company's profits and losses, losses can be written off and capital investments can be used to add productivity, increase profit and avail oneself of legitimate capital cost allowances. The human side of an economy and society should be treated at least as well. When potentially, actually or previously productive citizens fall behind, they must have a bridge — a passageway, a "life-cost" allowance which sees them through the rough spots.

The GAI/negative income tax would and could do just that — and we should not dither on making it a real policy choice.

Former IRPP president Hugh Segal is a member of the Senate of Canada. Adapted from a presentation to the Fraser Institute's Luncheon Series in Montreal, March 11, 2008.