



A BASIC INCOME FOR NEWFOUNDLAND AND LABRADOR

Opportunities, Options, and Analysis

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Introduction

There is a growing movement in Canada and around the world towards the introduction of a Basic Income as a foundational building block of a modern social safety net. This movement has only been accelerated by the COVID-19 pandemic. As we move towards a post-pandemic world, a Basic Income has the potential to underpin a just and inclusive recovery.

Basic income is an opportunity to rebalance our province's social and economic models, which leave thousands of people behind. Poverty in this province is a public health crisis and a deep violation of our responsibilities to each other. **Nobody in Newfoundland and Labrador should be forced to choose between vital medical care, heating their home, or having enough food to eat.** There are many complex issues that Newfoundlanders and Labradorians face, and a Basic Income is not a solution for all of them - but largely eliminating poverty in this province would certainly be a good start. That is what a Basic Income would do.

The national conversation around Basic Income has become much louder during the COVID-19 pandemic, and for good reason. The pandemic has shown just how much of a patchwork our social safety nets are. Imagine the counterfactual: what would our response to the pandemic have looked like had there already been a Basic Income in place? Many people's experience of this pandemic year would have been much less traumatic, and it's quite likely that the course of the pandemic itself would have been different if people had more support to remain safely at home. The pandemic has also moved the needle in the public's understanding of what a Basic Income might be; there was little argument with \$2000/month as the baseline for CERB, even though that is more than double the amount that provincial Income Support would generally provide in "normal" times to households in need.

Newfoundland and Labrador is, in many ways, an ideal jurisdiction in which to implement a Basic Income. The province is small enough to support a collaboratively-designed process that engages government, business, and community sectors, but large enough for evaluation of a Basic Income program to yield globally-relevant data on its macroeconomic impacts. The province has, in fact, come close to piloting a Basic Income model once before in the mid-1990s, following the cod moratorium¹. What was true then is true now – a Basic Income could be a transformative solution to the economic, employment, and social challenges this province faces.

Nationally, the movement towards a Basic Income is growing, particularly in response to the increasing levels of vulnerability caused by the COVID-19 pandemic. In November 2020, the Special Committee on Poverty in PEI recommended a guaranteed Basic Income as a direct response to the increasing rates of poverty in the province². A chorus of provincial, national, and international organizations and coalitions have endorsed a Basic Income, including many organizations here in Newfoundland and Labrador through the Coalition for a Just Recovery³.

There is also an unprecedented alignment in the social policy process in Newfoundland and Labrador. This year, Newfoundlanders and Labradorians will see the work of the Premier's Economic Recovery Team, the Health Accord, and a new Strategy to Reduce Poverty all moving forward. In the last sitting of the House of Assembly, a committee to study a Basic Income was unanimously approved, however this will now need to be reintroduced in the new House.

Strengthening our social safety net requires urgent and immediate action. Before COVID-19, people in this province were already facing the highest rate of

¹ Fran Locke & Penelope Rowe, "Poverty Reduction Policies and Programs: Tracing a Path from the Past to the Future". *Community Sector Council* (2009). http://communitysector.nl.ca/f/Tracing_a_Path.pdf

² Special Committee on Poverty in PEI. "Recommendations in Response to Motion No. 36: Creation of a Special Committee of the Legislative Assembly on Poverty in PEI". November 27, 2020. <https://docs.assembly.pe.ca/download/dms?objectId=ebb58bb4-b7db-43b9-9c69-fa59f27aac51&fileName=FINAL%20REPORT%20-%20Special%20Committee%20on%20Poverty%20in%20PEI%20-%20November%2027,%202020.pdf>

³ Coalition for a Just Recovery NL. "Coalition for a Just Recovery: We are Better Together". April 2020. <https://www.justrecoverynl.ca/#:~:text=The%20Coalition%20for%20a%20Just,and%20just%20recovery%20for%20NL.&text=Join%20our%20call>

unemployment of any province, paired with severe poverty and food insecurity challenges. In February 2020, NL was experiencing a 20% unemployment rate, and staggering rates of food insecurity⁴. Almost 15% of households identified as food insecure, a number that rose to 65% in households that rely on social assistance⁵.

The Canada Emergency Response Benefit (CERB) illustrated just how important it is to provide emergency income support in times of need. The CERB provided emergency income support to 121,260 Newfoundlanders and Labradorians injecting over \$1.112 billion in revenues to keep people safe. With the CERB now exhausted and other federal emergency benefits having limited eligibility criteria, along with the projected impacts of CERB clawbacks at tax time, we anticipate that the already-fragile economic situation for many households will only get worse as we move through 2021 and beyond. A Basic Income has never been more necessary.

The remainder of this policy paper lays out the arguments for a Basic Income in Newfoundland and Labrador, the design options, cost modelling, and revenue implications. A technical appendix developed by Basic Income expert Harvey Stevens is included at the end of this document.

⁴ Statistics Canada. "Table 3: Labour Force Characteristics by Province, Seasonally Adjusted". March 6, 2020. <https://www150.statcan.gc.ca/n1/daily-quotidien/200306/t003a-eng.htm>

⁵ Valerie Tarasuk and Andy Mitchell. "Household Food Insecurity in Canada: 2017–2018". *University of Toronto: PROOF Food Insecurity Research Lab* (2020), <https://proof.utoronto.ca/wp-content/uploads/2020/03/Household-Food-Insecurity-in-Canada-2017-2018-Full-Report.pdf.pdf>

Defining the Terms

The growing public conversation around Basic Income includes a variety of terms that have specific meanings, but are at times used interchangeably. For clarity, this policy paper will use the following definitions:

- **Demogrant:** A demogrant is a flat amount payment to every adult or person, regardless of income. It may or may not be considered taxable income⁶.
- **Depth of Poverty:** The amount household income is below the MBM threshold, measured as the percent of the MBM threshold⁷.
- **Non-Refundable Tax Credit:** A tax credit that reduces an individual's owed taxes.
- **Refundable Tax Credit (RTC):** A tax credit that can be paid out in a direct cash transfer to an individual.
- **Universal Basic Income:** A program that provides a demogrant of a fixed amount to the entire population (typically recouped from higher-income individuals through the tax system).
- **Guaranteed Annual Income (GAI):** A program that "tops up" incomes of lower-income individuals to an agreed-upon minimum level. Also known as a **Guaranteed Minimum Income, Income Floor, or Basic Income**.
- **Universal Livable Income:** A variant of a universal Basic Income with a higher benefit rate.
- **Guaranteed Livable Income:** A variant of a guaranteed annual income with a higher benefit rate.
- **Market Basket Measure (MBM)** of low income: threshold of poverty based on the costs of food, clothing, shelter, transportation, and other items based on a basic standard of living⁸.

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<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/amounts-that-are-taxed.html>

⁷Special Committee on Poverty in PEI. "Recommendations in Response to Motion No. 36: Creation of a Special Committee of the Legislative Assembly on Poverty in PEI". November 27, 2020.

<https://docs.assembly.pe.ca/download/dms?objectId=ebb58bb4-b7db-43b9-9c69-fa59f27aac51&fileName=FINAL%20REPORT%20-%20Special%20Committee%20on%20Poverty%20in%20PEI%20-%20November%2027,%202020.pdf>

⁸ <https://www12.statcan.gc.ca/census-recensement/2016/ref/dict/pop165-eng.cfm>.

Why Basic Income?

A Basic Income would be a transformative intervention across a wide range of social policy areas:

Poverty and Food Insecurity

The modelling included with this paper shows that a refundable tax credit (RTC)-based income floor could reduce the number of households under the Market Basket Measure (MBM) poverty line by up to 76% and the depth of poverty by 52%⁹. This would transform many lives – 67,700 people in the province were categorized as low income by this measure as of the 2016 census¹⁰. Raising these income levels would be a powerful intervention to reduce rates of food insecurity, which reached 14.7% of all households as of 2017–18 and have almost certainly risen further since, particularly during the pandemic¹¹. Food insecurity is overwhelmingly an issue of insufficient income, rather than supply chain constraints, and income-based interventions are by far the most efficient interventions to mitigate it¹².

Health and Mental Health

There is an extensive research literature around the ways in which poverty can negatively impact both physical and mental health, including a strong correlation between unemployment and low rates of health and mental health¹³. Being in a state of poverty is incredibly stressful, and can lead to many mental health challenges. Beyond the health benefits of poverty reduction, there are also benefits specific to a

⁹ Appendix A

¹⁰ Individual MBM Low-income Status (6) and Economic Family Characteristics of Persons (25) for the Population in Private Households of Canada, Provinces and Territories, Census Metropolitan Areas and Census Agglomerations, 2016 Census – 25% Sample Data

¹¹ Valerie Tarasuk and Andy Mitchell. “Household Food Insecurity in Canada: 2017–2018”. *University of Toronto: PROOF Food Insecurity Research Lab* (2020), <https://proof.utoronto.ca/wp-content/uploads/2020/03/Household-Food-Insecurity-in-Canada-2017-2018-Full-Report.pdf.pdf>

¹² Ibid.

¹³ <https://www.bma.org.uk/media/2084/health-at-a-price-2017.pdf>

Basic Income, particularly related to the psychological security a Basic Income provides¹⁴. The knowledge that there is always a floor of support accessible regardless of circumstances and without judgment is a powerful and empowering thing.

Support, with Dignity

Living with a low income often means sharing a great deal of private information with programs and systems of support. Individuals are subject to income tests, complex and invasive application processes, and dehumanizing experiences accessing emergency supports. All these systems of surveillance have a huge psychological cost to individuals, and a significant financial cost to governments and community agencies. By providing a non-stigmatized and unrestricted form of income support, a Basic Income would reduce the burden of this system, so often placed on those who can afford it least, and grant a stronger sense of agency to those who rely on it.

Economic Development Impacts

A Basic Income has the potential to serve as a powerful tool of economic development, particularly in rural and remote communities. At the most basic level, a Basic Income provides a secure fall-back that will enable people to take risks - starting a new business, pushing into a new market or season, or taking on a creative project, for example. This is particularly important for marginalized individuals who don't necessarily have access to the same informal networks of advice and financial support as those from more privileged backgrounds. A Basic Income is a stepping stone to inclusion in innovation. It also serves as an effective economic stimulus program; lower-income households have a much higher marginal propensity to consume - for reasons of necessity, cash transfers to these households are cycled into the economy, whereas higher-income households may hold onto them.

¹⁴ "Universal Basic Income: A Psychological Impact Assessment". EDUCATIONAL PSYCHOLOGY RESEARCH AND PRACTICE Vol. 3, No. 1. Spring 2017. pp. 86-111

Alignment with the New Economy

Newfoundland and Labrador faces a difficult economic and demographic future and will need to transition to a new economic model to survive. A Basic Income would facilitate this transition. In particular, a Basic Income would be a powerful support for managing the transition to a “green economy” and to a “gig economy”. As we work to reduce our reliance on fossil fuels and natural gas and instead prioritize the development of renewable energy sources, there is simultaneously a great degree of economic opportunity as demand for “green” jobs continues to grow and a great degree of uncertainty as workers in traditional energy sector jobs face increasing pressure to move away from fossil fuels. UBI can provide some of the necessary transitional support that workers in natural gas industries will need in order to re-train and upskill so that they are not displaced and can remain competitive.

Meanwhile, the growth of the “gig economy” of short-term, contract, and piecework service employment is well-documented, with 8.2% of all workers working gig jobs as of 2016, a number which is only likely to increase¹⁵. This is particularly the case for our province’s creative sector, whose participants often face low and unstable earnings that are not easily smoothed out through the EI system. These workers are generally not eligible for EI and substantial barriers exist in designing an EI system that would work for them. A Basic Income could serve as a more robust safety net for this part of the labour market. This would be especially important for young people; despite high levels of education only 44% of millennials have found permanent employment¹⁶.

Finally, a Basic Income would also serve as a support for the economic transformation of rural communities that is already underway. Some of that transformation is driven by tourism, and a Basic Income could support risk-taking and entrepreneurship in this space. More broadly, a Basic Income could provide a foundation on which to build a sustainable livelihood in communities where stable or full-time employment is increasingly rare.

¹⁵ <https://www150.statcan.gc.ca/n1/pub/11f0019m/11f0019m2019025-eng.htm>

¹⁶ Martin JC & Lewchuk W. (2018). The Generation Effect: Millennials, employment precarity and the 21st century workplace. PEPSO

A Growing and Popular Movement

Interest in and awareness of Basic Income as an option in Canada has been steadily increasing during the COVID-19 pandemic. A 2020 Angus Reid poll finds popular support for the idea of Basic Income, with 59% of Canadians supporting a universal Basic Income¹⁷.

At the Federal level, we have seen a massive majority of delegates to the Federal Liberal convention vote in favour of a Basic Income¹⁸, the Federal NDP has a motion (M-46) before parliament¹⁹, and a Private Members' Bill (C-273) from Liberal Julie Dzerowicz is in first reading²⁰. The Federal Green Party has also supported a Basic Income for decades. The All-Party Anti-Poverty Caucus of the Senate has endorsed a Guaranteed Livable Income as part of economic recovery for all²¹, and the Office of the Parliamentary Budget Officer recently completed a comprehensive distributional and fiscal analysis of a Basic Income²².

This legislative consideration is accompanied by a large and growing network of support and advocacy. Organizations like the Basic Income Canada Network²³, UBIWorks²⁴, and Coalition Canada Basic Income²⁵ are dedicated to Basic Income research and advocacy, and a Basic Income is a core advocacy goal of many other organizations, including Food Secure Canada²⁶ and the United Church of Canada²⁷, who is playing a leading role organizing support for Basic Income amongst religious communities.

¹⁷ <https://angusreid.org/universal-basic-income-covid19/>

¹⁸ <https://www.cbc.ca/news/politics/liberal-universal-basic-income-1.5982862>

¹⁹ [https://www.ourcommons.ca/members/en/leah-gazan\(87121\)/motions/10852236](https://www.ourcommons.ca/members/en/leah-gazan(87121)/motions/10852236)

²⁰ <https://parl.ca/DocumentViewer/en/43-2/bill/C-273/first-reading>

²¹ https://sencanada.ca/media/367277/en_news-release_all-party-anti-poverty-caucus_jan-20-2021.pdf

²² <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2122-001-S--distributional-fiscal-analysis-national-guaranteed-basic-income--analyse-financiere-distributive-un-revenu-base-garanti-echelle-nationale>

²³ <https://basicincomecanada.org/>

²⁴ <https://www.ubiworks.ca/>

²⁵ <https://basicincomecoalition.ca/en/>

²⁶ <https://foodsecurecanada.org/resources-news/news-media/PROOF-2020-webinar>

²⁷ <https://united-church.ca/social-action/act-now/create-guaranteed-livable-income-program>

Outside of direct advocacy, a Basic Income has been endorsed by a huge range of organizations across sectors. A good partial list is available at <https://basicincomecanada.org/endorsements/>

Should Newfoundland and Labrador pursue a Basic Income, government would find common cause with a robust group of policymakers and researchers across the country who would be more than willing to contribute to the details of program design. There is also opportunity for this province to make common cause with other provinces – particularly Prince Edward Island – in advocating for a Federal role in resourcing a Basic Income.

Since the days of the Basic Income pilot in Dauphin, Manitoba in the 1970s, Canada has been a leading jurisdiction in Basic Income research and analysis. We now have a chance to be a leading jurisdiction in implementation.

Proposed Model

To ensure the greatest benefit for all Newfoundlanders and Labradorians, we recommend a model based on a Refundable Tax Credit (RTC) using NL Market Basket Measure (MBM) thresholds as the de facto poverty line based on community size. A weighted average is used to calculate a provincial threshold of poverty in NL. The RTC is then based on a percentage of this weighted poverty line. The MBM threshold for a single person household is then \$22,050 per year. This program would be permanent and would apply to all Newfoundlanders and Labradorians over 18.

The intention would be to maximize the positive societal impact of a Guaranteed Annual Income (GAI) while mitigating any potential adverse outcomes. This focus on positive effects includes a keen awareness of other sources of income and support currently available to people with incomes near or below the weighted average MBM.

Cost Estimates

Each option's net cost will be the gross cost less 2019 expenditures on provincial social assistance benefits. If the provincial government were willing to help finance a GAI by eliminating the low-income tax reduction and the income supplement program, the net cost would be even lower.

Cost estimates for a Basic Income in Newfoundland and Labrador vary depending on the chosen combination of funding level and benefit reduction rate. Projected annual expenditures range from \$471 million (for a grant at 50% of MBM and a benefit reduction rate of 50%) up to \$3.8 billion to bring people up to 100% of MBM with a 20% benefit reduction rate. This more inclusive model would result in a 76% reduction in the MBM poverty rate and a 52% reduction in MBM depth of poverty²⁸. All models within this range would have a significant effect on poverty in the province.

A detailed table of options is in Appendix A. At the lower end of this range, a Basic Income would be achievable within the province's fiscal envelope with some changes to taxation structures. At the higher end, it would require more substantial changes and, likely, revenues that are most effectively collected at the Federal level. The next section presents these options.

Compared with the gross costs associated with these nine GAI options, the 2019/20 expenditures by the provincial government were \$3,138,400,000 on Health and Community Services, \$949,400,000 on Education and Early Childhood Development and \$833,700,000 on Advanced Education, Skills and Labour. Total government expenditures were \$7,480,900,000.

²⁸ Appendix A

Revenue Options

There are multiple revenue sources available that could be used to pay for a Basic Income in Newfoundland and Labrador. These broadly divide into three categories: existing expenditures that would be rolled into a Basic Income, new or increased revenue options, and savings from a reduced cost of poverty.

Existing Tax Benefits

As per Appendix A, establishment of a Basic Income as a Refundable Tax Credit (RTC) would allow for two existing tax benefits, the NL Tax Reduction and the NL Income Supplement, to be folded into a Basic Income program. As per data provided by the Department of Finance from 2019, the NL Tax Reduction represents a cost of \$15.99 million to the government in foregone revenue, while the NL Income Supplement accounts for a cost of \$66.41 million, for a total of **\$82.3 million**. Furthermore, a Basic Income would replace our existing income support spending, which currently sits at **\$221 million for the 2020–2021 fiscal year**.

Revenue Options

Some recent analysis has been done to estimate the revenue impacts of various revenue collection options in Newfoundland and Labrador²⁹. This could include the following provincial taxation measures:

- A 1% increase in the HST (\$110 million/year)
- A 2% increase in income tax for the top two brackets (\$42 million/year)
- A more comprehensive carbon tax that follows the federal government's mandated schedule of increases (\$400 million/year in 2022, up to \$1 billion/year in 2028)
- A tax on luxury purchases (\$16 million/year)
- Taxing capital gains in line with wages (\$50 million/year)

²⁹ <https://peoplesrecoverynl.ca/our-recommendations>

Taken together, these measures would generate between \$628 million and \$1.2 billion annually. The provincial government also has other potential revenue sources not explicitly costed here. These could include progressive fee/fine structures (charged as a % of income), widening the top tax brackets to align with other provinces, implementing a higher minimum wage with attendant tax revenue benefits, and many more. Also not estimated here are revenue benefits from programs that would be implemented nationally, such as a wealth tax or other increases in federal transfers, or the revenue impacts of economic growth associated with policy decisions.

Reduced costs of poverty

As per a 2021 report, having households under the poverty line in Newfoundland and Labrador results in an estimated **\$959 million** in costs, including productivity and opportunity impacts (**\$628 million**), health care costs (**\$120 million**), crime costs (**\$39 million**), intergenerational costs (**\$170 million**), and foregone tax revenue (**\$94 million**)³⁰. A Basic Income that largely eliminates poverty would also largely mitigate these impacts, with some (taxation, health, crime) showing up directly on government balance sheets. As the authors of this study note, this is likely an underestimation.

Summary – Revenue Options

As this shows, a Basic Income could be funded at a provincial scale through a diverse mix of revenue measures and cost savings, though the recommended model's cost of \$3.8 billion annually would likely require increases in federal transfers, offset by revenue tools that could be implemented at the federal level.

³⁰ <https://www.policyalternatives.ca/AtlanticPovertyCosts>

Risks and Important Considerations

The concept of Basic Income challenges us to think outside of our economic and social frameworks and imagine what is possible. The benefit of exploring Basic Income in a 2021 context is that there is a growing body of research that demonstrates the positive effects of this policy intervention. There is also push-back, concern and anxiety when it comes to Basic Income. It is critical to examine the counter-arguments of this policy intervention and consider the possible negative effects of Basic Income.

Effects on economic and social behaviour

One of the major counter-arguments of Basic Income is the possible effect on the workforce. A 2016 Harvard and MIT report demonstrates that despite the increase in transfer programs amongst countries globally, there have been no impact of these systems on work behaviour³¹. Furthermore, studies demonstrate that these programs do not give rise to unusual spending habits (e.g. frivolous spending, spending on tobacco or alcohol, etc.). One study indicates that cash transfers actually reduce total expenditures on temptation goods³². The current research suggests that when individuals have access to the financial capital to purchase “substitution goods”, in other words, the types of products and services that support goals, aspirations, and employment (inclusive of healthcare and education), their substance spending decreases³³. The current literature tells us that the currently available transfer payments that support vulnerable people in accessing income do not lead to negative economic or social outcomes but instead support people in accessing financial resources that lift them out of poverty.

³¹ <https://economics.mit.edu/files/12488>

³²

https://static1.squarespace.com/static/5f07a92f21d34b403c788e05/t/5f751297fcfe7968a6a957a8/1601507995038/2020_09_30_FSC_Statement_of_Impact_w_Expansion.pdf

³³ <http://documents1.worldbank.org/curated/en/617631468001808739/pdf/WPS6886.pdf>

Effects on Inflation

Basic income challenges our current conceptions of economics and forces us to ask the question of; what happens when a group of the population gains income in an alternative way than trading their labour for money? Some argue that a Basic Income will destabilize the economy, as increases in wages would not necessarily correlate with increased rates of production. If Basic Income increased the inflation rate, then workers' wages could be valued less than they currently are. While we don't know what the effect of a pilot project of this size would have on a province like ours, we can point to the findings from current literature, including a 2017 report by the Roosevelt Foundation which suggested that an unconditional cash transfer of \$1,000 for all adults would expand the economy by 12.56% over eight years and increase rates of employment³⁴. If rates of employment and financial security increase, some increases in inflation are possible, though there are mitigating taxation policy options that can be put in place. It is also important to note that inflation linked with increases in wages and employment rates is not necessarily a negative outcome.

Current research points to an important fact that being provided with additional financial support from governments does not result in irregular spending habits. This is important to note, as inflation is one of the largest points of anxiety in public discourse on a Basic Income. One of the key drivers of inflation is the sudden influx of money into the economic system, driving up demand, decreasing supply and spiking prices. The research tells another story, however, one where people who receive a Basic Income use it to meet their basic needs and position themselves for employment rather than using it for the purposes of frivolous spending.

³⁴ <https://rooseveltinstitute.org/wp-content/uploads/2020/07/RI-Macroeconomic-Effects-of-UBI-201708.pdf>

Tax System Timing and Structure

The BI model proposed here, using the tax system, has the advantage of being able to utilize a robust existing delivery system. The annual nature of income reporting, however, will create some challenges that must be designed around, in that the benefit amount has a lag time, based as it is on the difference between the last year's reported income and the BI threshold. The Canada Child Benefit is constructed similarly. A key discussion would be around how individuals could be re-assessed in the event of sudden life changes, and around whether payments would come in a lump sum as part of a tax refund or (as with CCB) be paid out monthly. Significant thought has already gone into these design considerations – particularly by Evelyn Forget³⁵, and there are options to smooth out income flows through monthly reporting.

Basic Income and the Broader Social Safety Net

A Basic Income is not a wholesale replacement for our social safety net. There are those who advance the idea of a Basic Income on cost-saving grounds by suggesting that it could replace almost all social welfare spending. This is a wildly hyperbolic argument when applied to a BI of the scope and scale being considered in this paper, or more broadly in the country. A Basic Income could largely eliminate poverty, but those living above the poverty line have a wide range of needs that government will still need to meet.

Meeting government's obligations to citizens involves a wide range of structures and programs. Assessing which parts of these structures could be folded into a Basic Income, and which parts would remain will be a key part of the implementation conversation. This section lays out some broad thinking on the most important interactions here.

³⁵

<https://policyoptions.irpp.org/magazines/november-2020/a-guaranteed-minimum-income-would-be-more-effective-than-current-government-programs/>

Interactions with other Benefit Programs (Income Support, CCB, CPP, OAS, GIS)

The BI model proposed here entirely replaces provincial Income Support (social assistance) payments and the associated infrastructure and resources devoted to oversight of system users. In the absence of an Income Support system, thresholds would need to be established for access to supplemental drug, dental, and transportation supports. This would provide an opportunity to reduce the disincentivizing effects on employment that many of these programs have; as presently designed they are a substantial support to many families, and the risk of losing them can often mean that the decision to enter the labour force would be a net loss.

As proposed, a Basic Income would leverage the existing CPP, GIS, and OAS supports for older adults – in effect, it would serve as a provincial “top up” to these payments to push them across the Basic Income threshold if needed, while not leaving federal funds unspent. The Canada Child Benefit would be leveraged in a similar manner to reduce the cost of bringing families with children across the threshold.

This design could change, of course, should the Federal Government be interested in more radical reforms to benefit programs.

A Basic Income and Employment Insurance

Implementation of a Basic Income as proposed here (as a refundable tax credit) would not directly impact the Employment Insurance system, but would serve as a supplemental support for those engaged with it. Individuals whose EI benefits were below the BI threshold would see them topped up, and individuals who did not reach the EI eligibility threshold would have access to an alternative means of support without the need to apply. A BI would also (depending on the delivery system) help support individuals awaiting the processing of EI applications.

The Role of a Living Wage

One of the key barriers to escaping the cycle of poverty is poverty wages. In the United States, for example, there has been an overall increase in rates of employment over the past several years while wages remain low for workers³⁶. Increases to the minimum wage could reduce or eliminate the chance that someone can both work full-time and live in poverty. We are seeing an increased push across North America for a \$15.00 minimum wage, including in Newfoundland and Labrador. A Living Wage is a strong complement to a Basic Income; effectively, it reduces the overall cost of a BI by reducing the number of households who are living under the poverty line; in this case it does so by mandating private spending rather than direct government spending, but the result is the same.

Some advocates have expressed concerns about the impacts of a BI on pay rates and the labour market; specifically there is a worry that if the Basic Income does not have a high benefit reduction rate, it could give employers an unfair opportunity to reduce pay rates for low-wage workers³⁷, knowing that a BI would make up the difference. While this has not been seen in any Basic Income pilots to date (in fact, there is evidence that BI has supported workers to upskill and seek better employment opportunities³⁸), a BI has not yet been implemented on a whole-jurisdiction scale. Minimum wage laws are a key tool to ensure this does not happen.

It is important to note that an increased minimum wage does not directly support people who do not work. This is especially relevant in Newfoundland and Labrador -- in February 2021 (last available month of statistical data), our unemployment rate was at 14.6%, the highest of any province in Canada³⁹. Amongst the unemployed population are those who are the most vulnerable; including those who are homeless, young women struggling to provide for their children, people living with

³⁶

https://www.brookings.edu/blog/up-front/2018/10/04/if-real-wages-arent-rising-how-is-household-income-going-up/?source=post_page

³⁷ <https://www.unifor.org/en/blog/a-universal-basic-income-too-good-be-true>

³⁸ <https://labourstudies.mcmaster.ca/news/access-southern-ontario2019s-basic-income-experience-report>

³⁹ https://www.stats.gov.nl.ca/Statistics/Topics/labour/PDF/UnempRate_Monthly.pdf

disabilities who are unable to work or find work, and members of our rapidly increasing seniors population. To support the most vulnerable in our province, we need to focus on a policy solution that lifts everyone out of poverty.

It is also important to come back to the fact that current research on Basic Income is clear that a Basic Income does not deter people from working, and in some cases it actually increases the rates of employment. It may also provide workers with a stronger foundation for collective bargaining. Ultimately, this positions Basic Income as a policy intervention that could compliment and maybe even encourage businesses to move towards a living wage.

Conclusion

Experiments with Basic Income around the world have clearly shown strong benefits at the household level and to individual well-being. The next step in understanding the impact of a Basic Income is to implement it at a whole-jurisdiction scale.

Bringing in a Basic Income in Newfoundland and Labrador, or partnering with other Atlantic Provinces such as Prince Edward Island on a regional arrangement, would be a chance to understand the macroeconomic and large-scale social impacts of this potentially transformative intervention and would position this province as a global leader in innovative social policy.

In considering Basic Income, there is an argument to be made that it would be better to fix our current systems than create something brand new. It is of course possible to look at our current systems and reform them to better meet the needs of vulnerable populations and lift people out of poverty. The key issue is time – and reforming these complex systems will take a great deal of it. Given our provincial context, we have only a short runway to change our trajectory and mitigate the effects of rising unemployment, a rapidly aging population, and the consequences of out-migration.

Unprecedented challenges require innovative solutions. We are faced with an urgent need to turn the tide on our province's challenges and through a Basic Income, we have an opportunity to prioritize the needs of our most vulnerable through policy that supports a healthy population and a strong economic future.

APPENDIX A: OPTIONS FOR THE DESIGN OF A GUARANTEED ANNUAL INCOME FOR NEWFOUNDLAND/LABRADOR, PREPARED BY HARVEY STEVENS

The Elements of a GAI, Structured as a Refundable Tax Credit

There are two basic ways of designing a GAI – as a demogrant and as a refundable tax credit. A demogrant is a flat amount payment to every adult or person, regardless of income. It may or may not be considered as taxable income. An example is the Alaska Permanent Fund where an annual payment is made to every person who has lived for a full year in the state. In 2019, the dividend was \$1,606. By comparison, a refundable tax credit (RTC) offers a maximum benefit – the Guarantee – which is then clawed back as other income increases until it reaches \$0. An example of a RTC is the Canada Child Benefit (CCB).

The options presented in this report are those designed as a RTC. There are a number of parameters that have to be specified in order to give concrete shape to a RTC. They include the Guarantee (G), the Benefit Reduction Rate (BRR) at which the Guarantee is reduced as other income increases, the definition of the income used to claw back the Guarantee and the household or family unit used to calculate the other income and assign the benefit. For some RTCs like the CCB there is also a Turning Point (TP), the level of income below which the Guarantee is not clawed back.

The value of the net benefit (NB) is calculated according to the following formula:

$$\text{NB} = \text{G} - (\text{Income} \times \text{BRR}).$$

With this formula, the Exit Level at which NB=0 is defined as

$$\text{E} = \text{G}/\text{BRR}.$$

These formulas indicate that the generosity and reach of a GAI depends on the size of the Guarantee and the rate at which it is reduced against other income. The higher the G, the greater the net benefit and the greater number who receive a partial benefit. Conversely, the higher the BRR, the lower the net benefit and the fewer number who receive a net benefit.

Within a fixed budget, the design of a GAI involves this trade-off between the G and the BRR. The higher the G is set, the higher the BRR has to be set to stay within the fixed budget and vice-versa.

The population eligible to receive a GAI payment in this modeling exercise is adults 18 and over living in Newfoundland/Labrador. No citizenship or residency requirements have been imposed.

Establishing the Parameters of the GAI

Setting the Value of the Guarantee

For this exercise, the Guarantees have been set as a fraction of the Market Basket Measure (MBM) thresholds for the province. The federal government established the MBM as Canada’s official poverty line several years ago. For NF/L, there are now four MBM thresholds depending on where the person lives – St. John’s, communities of 30K to 99.9K, communities of under 30K and rural. The 2019 MBM thresholds for the reference family of four persons (two adults & two children) for these four areas- using the 2018 MBM Base – are:

- St. John’s **\$45,263**
- Corner Brook **\$44,615**
- Under 30K **\$43,362**
- Rural **\$42,971**
- Weighted Average **\$44,101**

As a province-wide GAI would require one threshold, the population weighted average MBM threshold has been calculated and will be used as the basis for setting the Guarantee. The MBM threshold for a single person household is half the MBM for four persons = \$22,050. For larger families, the MBM is the single person threshold x square root of family size. So, a two person family threshold is \$31,183, a three person family threshold is \$38,192, a five person family threshold is \$49,305; and, a six person family threshold is \$54,011.

For the purposes of this modeling exercise, the MBMs for just the single adult household and the 2 person household have been used as the Guarantee. For families of 3 or more persons, the two-person family MBM threshold has been used because the CCB payments have been excluded from the family income used to claw back the value of the Guarantee as they approximate the increased value of the MBM threshold.

The three Guarantees used in the following modeling exercise are 50, 85 and 100 per cent of the weighted average MBM threshold for 1 and 2+ person families for the province.

Setting the Benefit Reduction Rate

As noted above, a lower BRR increases the percent of the population which receives a benefit from a GAI and raises the cost of the program. A lower BRR also reduces the work disincentive effects of a GAI. The three BRRs used in this modeling exercise are 20, 35 and 50 per cent.

Defining the Income Used to Reduce the Guarantee

There are many options for defining the income used to claw back the value of the Guarantee, ranging from total gross income from all sources to after tax income on selected sources. For the CCB program, the income used to reduce the value of the benefit is the Canada Revenue Agency's (CRA) 'net family income' which is the sum of line 236 of the personal income tax form of the parents making up the family unit. It is defined as total income (excluding the CCB) less deductions for all parents in a nuclear family.

For the purpose of this modeling exercise, the income used to claw back benefits is a modification of the CRA net family income. Like the CRA net income, the GAI claw back income excludes CCB payments from total income. But unlike the CRA net income definition, the GAI claw back income also excludes federal OAS and GIS

payments and provincial SA benefits. The CCB payments are excluded from the GAI claw back income because the CCB payments are used to top up the value of the Guarantee for families of 3 or more persons. The federal OAS and GIS benefits are excluded from the claw back income because they are deducted dollar-for-dollar from the Guarantee *before* the claw back is applied. Deducting the *full* value of the OAS+GIS benefits from the Guarantee implies that the provincial GAI is a top-up for seniors and thus allows the province to benefit fully from the federal transfer payments to seniors in financing the GAI. Any provincial social assistance benefits received by the family unit are also excluded from the GAI claw back income because the options presented in this paper offer a Guarantee that is greater than what the social assistance program offers and thus would replace the SA program. For a single adult, the current SA rate is \$10,848 compared to the 50% of MBM Guarantee of \$11,025. For a single parent with 1 child, the SA rate is \$15,444 compared to the 50% of MBM Guarantee of \$15,591 which is only slightly lower than the current SA rate of \$16,020 for the two parent/two child family.

Determining the Family Unit Receiving the GAI

While all parents' net income is used to clawback the value of the Guarantee, the resulting net benefit can be divided between the parents. In this modeling exercise, each parent receives an equal share of the total family benefit. In the case of a single parent or single person unit, the sole adult receives the full value of the GAI.

The Gross Cost, Reach and Poverty Impact of the GAI Options

The following table summarizes the impact of the nine options presented above on the *gross* cost, the percent of adults receiving a benefit and the impact on the rate and depth of poverty. The *net* cost of each option will be the gross cost less 2019 expenditures on provincial social assistance benefits. If the provincial government were willing to help finance a GAI by eliminating the low income tax reduction and

the income supplement program, the net cost would be even lower.

Option	Total Gross Cost (\$M)	Average Benefit per Adult	% of all Adults Benefiting	% reduction in the MBM Poverty Rate	% reduction in the MBM Depth of Poverty
G = 50% of MBM BRR = 20%	\$947.8	\$4,794	46.0%	-30%	-18%
G = 50% of MBM BRR = 35%	\$602.0	\$6,130	22.8%	-23%	-20%
G = 50% of MBM BRR = 50%	\$471.3	\$6,569	16.7%	-11%	-23%
G = 85% of MBM BRR = 20%	\$2,830.4	\$7,969	82.6%	-59%	-50%
G = 85% of MBM BRR = 35%	\$1,792.8	\$7,343	56.8%	-57%	-44%
G = 85% of MBM BRR = 50%	\$1,287.0	\$7,389	40.5%	-55%	-41%
G = 100% of MBM BRR = 20%	\$3,861.5	\$10,079	89.1%	-76%	-52%
G = 100% of MBM BRR = 35%	\$2,547.3	\$9,287	63.8%	-74%	-46%
G = 100% of MBM BRR = 50%	\$1,856.3	\$9,046	47.7%	-73%	-37%

In comparison with the gross costs associated with these nine GAI options, the 2019/20 expenditures by the provincial government were \$3,138.4 million on health and community services, \$949.4 million on Education and Early Childhood Development and \$833.7 on Advanced Education, Skills and Labour. Total expenditures were \$7,480.9 million.