



Canadian Centre for
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Manitoba Office

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A province with no poverty?

The so-called war on poverty has been an abysmal failure. Poverty rates in Canada remain at stubbornly high levels. Most provinces, including Manitoba, still have about one in 10 living below acceptable low-income cut-offs.

Low-income Manitobans, like other low-income Canadians, fall back on a myriad of programs supposedly aimed at eliminating, if not reducing the impacts of poverty. A non-exhaustive list includes provincial and on-reserve social assistance, federal and provincial child tax benefit credits and supplements, GST credits, Manitoba 55+, Rent Aid and Old Age Security. Not only is there a lot of money spent on administering these programs, the overall benefit levels are inadequate, especially given the rising cost of housing.

Applying for these programs can be humiliating as administrators seek to shrink budgets by restricting the number of people on welfare and by limiting which expenditures are eligible. People trying to get off social assistance are penalized as new income is clawed-back at very high marginal rates. Others on disability do not dare see what they are able to do for fear of being cut-off altogether.

In many ways, our society has institutionalized poverty. In order to break with this harmful pattern, we need to consider more beneficial policies.

Otherwise known as a “negative income tax”, the Guaranteed Annual Income (GAI) ensures an acceptable family income by using the income tax system to top up income to a minimum floor. The GAI’s simplicity is its

strength. Because everyone will be assured a minimum income, income support programs would no longer be needed, which both eliminates gaps and frees up cost savings for other priorities. Some of the dollars saved could be put towards housing, child care, addictions treatment or improving employability. So what are the costs and benefits of a GAI in Manitoba? If the average top-up for Manitoba’s 100,000 adults living below the after tax low income cut-off were say \$12,000, the total cost might be around \$1.2 billion.

Sounds like an enormous number until we look at the direct savings to government. Low-income Manitoba families receive about \$850 million a year in provincial social assistance, GST credit, Canadian Tax Benefit and the CTB Supplement. Adding in the cost of the dozen or so relatively smaller programs increases this amount further. Another consideration is that the first bracket of income is currently tax exempt, however with the GAI, income earned above the minimum income could be considered taxable. Lower income families would therefore pay back at least a portion of the GAI in income taxes.

Five different GAI field experiments were conducted in North America in the 1970s. The most extensive of these studies was conducted between 1974 and 1979 right here in Dauphin. Thanks to recent work by Professor Evelyn Forget of the University of Manitoba, new conclusions on a 40 year old experiment are being drawn. Prior to the GAI field trial, Forget found that Dauphin was about 8.5 per cent above the provincial average in terms of number

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IN LABOUR ISSUES

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of hospital visits. During the field trial, the number fell to roughly the provincial average, only to increase to its previous rate after the trial was concluded. Most notably there were fewer mental health issues, fewer domestic-abuse issues and fewer work-related injuries, delivering a welcome cost-savings to an over-stressed \$5 billion health care system.

Professor Forget also found that there was a reduction in crime in Dauphin during the field trial compared to controlled populations.

Given that 93 per cent of Manitoba inmates are male and 70 per cent are Aboriginal, a good place to find out how a GAI would impact the Justice budget is to ask at-risk Aboriginal men. I work at BUILD, a local social enterprise that hires many ex-offenders. A convened group of them agreed that having a limited but guaranteed income each month would significantly impact the number of people selling drugs or committing robberies.

As informal as this survey was, the result is welcome news as a way to reduce the \$500 million expenditures per year that the government of Manitoba spends on its Justice budget (up from \$300 million in 2006). The City of Winnipeg should also take notice as it currently spends \$242 million per year on policing (up from \$114 million in 2000).

The biggest knock against the GAI is the belief that many adults would choose to stay home and live off the GAI rather than work. GAI proponents counter that the five field studies showed very little impact on labour

market participation and what changes did occur were by parents staying home longer after birthing and young adults choosing to finish high school or complete other education rather than entering the labour market to contribute to family income. This latter group actually responded strongly enough to the GAI to cause a measurable increase to graduation rates in Dauphin compared to control populations. Young people choosing to stay in school and improve their education would provide long term benefits to the productivity and tax base of our province.

The provincial government cannot implement a GAI on its own. It would need a willing federal partner. Although many people – those with disabilities for example - will always require extra supports as well as adequate income, a GAI would still significantly decrease the need for the bureaucracy necessary to administer EIA and welfare programs, making this approach appealing to all political parties.

Given the glaring limitations of the welfare system and the high economic costs of poverty, and considering that this is one of those rare ideas that garners support from both the right and the left, can we afford not to take the GAI seriously?

Shaun Loney has an MA in Economics from the University of Manitoba and is the co-founder of four growing social enterprises. He is the author of *BUILD Prosperity: Energizing Manitoba's Local Economy* and a CCPA-MB research associate.

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