

BASIC INCOME GUARANTEE

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# DO WE STILL NEED A BASIC INCOME GUARANTEE IN CANADA?

By Evelyn L. Forget

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## ABSTRACT

Almost forty years ago, Canada experimented with Basic Income Guarantee (B.I.G.) in a field experiment in Manitoba called Mincome. That project ended and, despite periodic revivals of interest over the years, no general programme was introduced in Canada. Now, the idea has re-emerged with new vigour; jurisdictions around the world are introducing experiments and pilot projects.

**This paper argues that B.I.G., like any other social programme, can address a variety of issues but cannot independently solve all social problems.**

If well designed, a B.I.G. can not only deliver a range of benefits, but can do so at a feasible cost. First, we examine the findings from Mincome, the Canadian field experiment that investigated B.I.G. in Manitoba during the 1970s, and then address the purpose and design principles that are beginning to emerge during the current debate about B.I.G. in Canada. We consider ways in which a B.I.G. can enhance existing social programmes while identifying those programmes that can be replaced. Finally, we share stories from people for whom existing programmes do not work well, and from those for whom Mincome made a significant difference. We conclude that a B.I.G. is necessary in Canada today.

## INTRODUCTION

Almost forty years ago, Canada experimented with Basic Income Guarantee (B.I.G.) in a field experiment in Manitoba called Mincome. That project ended and, despite periodic revivals of interest over the years, no general programme was introduced in Canada. Now, the idea has re-emerged with new vigour; jurisdictions around the world are introducing experiments and pilot projects. Finland<sup>1</sup>, several cities in the Netherlands<sup>2</sup> and possibly Barcelona<sup>3</sup> are embarking on B.I.G. projects designed to enhance labour force participation among income assistance recipients, while other European jurisdictions watch with interest. *Y Combinator*<sup>4</sup>, a private-sector venture capital firm, is organizing and financing an experiment in Oakland, California, provoked by the changes in the labour market that its CEO, Sam Altman, expects to accompany accelerating technological change.<sup>5</sup> Low and middle-income countries continue to experiment with BIG as a way to achieve development goals.<sup>6</sup> Ontario has just released a discussion paper by Hugh Segal and is set to embark on its own experiment in 2017<sup>7</sup>, while Quebec continues to explore the issue,<sup>8</sup> and other provinces look on.

In Canada, opinions about the feasibility of both B.I.G. and the proposed Ontario experiment are mixed. A great deal of enthusiasm, much of it led by public health advocates<sup>9</sup>, has generated working papers and editorials in support of the scheme. At the same time, even though Ontario expects to begin its announced pilot in 2017, the specifics of what a B.I.G. might look like in the Canadian context are just beginning to take shape. In many ways, B.I.G. is still an idea rather than a policy because it lacks specificity.<sup>10</sup> Critics use this claimed lack of specificity to forecast extreme costs while simultaneously raising concerns that B.I.G. will endanger all existing social programmes.<sup>11, 12, 13</sup>

The Mincome field experiment took place in Manitoba in the 1970s, but the project ended without a general implementation of a B.I.G. Subsequently, the idea of B.I.G. has re-emerged on more than one occasion in this country. Since the 1970s, however, two things have changed dramatically: first, our social safety net is much more complex than it was and, second, the labour market has become much more precarious, with a greater proportion of short-term, part-time, low-wage jobs than existed forty years ago. Do we still need a B.I.G. in Canada and, if we do, what should it look like? Is there still anything to learn from Mincome?

First, we examine the findings from Mincome, and then address the purpose and design principles that are beginning to emerge during the current debate about B.I.G. in Canada. We consider ways in which a B.I.G. can enhance existing social programmes while identifying those programmes that can be replaced. Finally, we share stories from people for whom existing programmes do not work well, and from those for whom Mincome made a significant difference. We conclude that B.I.G., like any other social programme, can address a variety of issues but cannot independently solve all social problems. If well designed, a B.I.G. can not only deliver a range of benefits, but can do so at a feasible cost.

1 | Kela publishes a regular newsletter and updates on the experiment in Finland. <http://www.kela.fi/web/en/experimental-study-on-a-universal-basic-income>.

2 | A video comparing BI experiments in Finland and the Netherlands is available online. <http://basicincome.org/news/2016/12/comparing-basic-income-experiments-finland-netherlands/>.

3 | It has been reported that Barcelona has received EU funding to implement an experiment in 2017. <http://basicincome.org/topic/barcelona/>.

4 | This has been widely covered by the press internationally. <https://techcrunch.com/2016/05/31/y-combinator-announces-basic-income-pilot-experiment-in-oakland/>.

5 | <http://www.businessinsider.com/inside-y-combinators-basic-income-project-2016-6>

6 | Many of these experiments are summarized here: <http://basicincome.org/>

7 | Available here along with requests for feedback <http://basicincome.org/news/2016/11/ontario-canada-new-report-request-input-basic-income-guarantee-pilot/>.

8 | <http://basicincome.org/news/2016/02/quebec-francois-blais-basic-income/>.

9 | The Canadian Medical Association, the Ontario Public Health Association, the Canadian Public Health Association and many other official groups, as well as health advocacy groups such as Upstream Canada <http://www.thinkupstream.net/> have endorsed BIG. In Ontario, a letter signed by more than 200 family physicians and addressed to Health Minister Hoskins was instrumental in the announcement of the imminent experiment.

10 | Noah Zon, Policy Brief: Would a Universal Basic Income reduce poverty? Maytree Foundation, August 2016. Available here: [https://medium.com/@maytree\\_canada/policy-brief-would-a-universal-basic-income-reduce-poverty-cd85fd64dbac#.xdpmbov35](https://medium.com/@maytree_canada/policy-brief-would-a-universal-basic-income-reduce-poverty-cd85fd64dbac#.xdpmbov35)

11 | Michael Mendelson, 'Basic Income' or 'Bait and Switch', Caledon Institute for Social Policy, October 2016. Available here: <http://www.caledoninst.org/Publications/PDF/1106ENG.pdf>

12 | Milligan, K. <https://www.cabe.ca/jmv3/index.php/documents/webinars/225-basic-income-dr-kevin-milligan-160518>

13 | <https://www.thestar.com/opinion/commentary/2016/07/19/basic-income-how-about-basic-services.html>

## IS MINCOME STILL RELEVANT?

Forty years ago, B.I.G. field experiments were taking place across North America.<sup>14</sup> In the U.S., they were called negative income tax (NIT) experiments, while in Canada they were referred to as experiments in guaranteed annual income (GAI). In the 1970s, B.I.G. was heralded as an end to poverty. In the U.S., the civil rights movement of the 1960s had exposed many Americans to the existence of extreme poverty in what was otherwise a wealthy country, and the negative income tax experiments were one response (Forget 2011b). In Canada, Mincome was constructed in the same atmosphere that led us to introduce the Canada Pension Plan in 1966, nationwide universal health insurance by 1972, and to make unemployment insurance and disability support payments more generous. The world was being remade and, in Canada, what was then called guaranteed annual income was perceived as one pillar of the just society, just as was Medicare (Forget 2010).

In both Canada and the U.S., families who participated were promised a B.I.G. that was considered sufficient to provide a modest but dignified life. One of the experimental sites of the Canadian Mincome project was the small town of Dauphin in Manitoba, which was unique because every family (rather than a selected few) that lived in the town was invited to participate. The amount of money they received would depend on the size of their family and the amount of income they received from other sources. The payments were modest; for a family of four with no other income, the guaranteed annual income would be \$3,800, just over \$22,000 in current dollars. As income from other sources increased, the value of the GAI would decline but less than proportionately. A family of four earning \$7,600 or more would receive nothing.

The money flowed into Dauphin for only three years, but the impact was profound. High school completion rates increased. People were hospitalized less often, particularly for accidents and injuries and mental health complaints. They visited family doctors less often for mental health complaints. Some of the participants

reflected on their experiences and reported that the extra money made life just a bit easier. It allowed families living close to the edge to indulge in the small, everyday luxuries that make life tolerable. It reduced the stress of unexpected expenses. People reported that accepting the money did not make them feel bad because "everyone was the same". Others told stories of decisions with long-term consequences. One single mother with two young daughters reported that she left welfare to join Mincome because she would have the freedom to take some job training, which her otherwise supportive welfare caseworker had discouraged. Forty years later, she reported the pride she felt in having modelled independence for her daughters. A farm family that sold vegetables at a local market faced hardship when their farm truck broke down. Mincome allowed them to buy a new truck and stay in business. Another woman reported how she and her husband, both in their early twenties at the time, opened a small record shop relying on Mincome to pay their living expenses during the challenging early years of the business. In the end, though, Mincome ended, as did all four US experiments, without the introduction of a B.I.G. policy.

The North American experiments of the 1970s ended for a variety of reasons, some political and some economic. The oil price shocks and stagflation of the 1970s destabilized existing governments and shifted attention towards other economic problems and away from poverty. In the U.S., the politics were more complex. Early results seemed to suggest that recipient families were more likely to experience divorce than were controls (Hannan, Tuma and Groeneveld 1978). This interacted with race to suggest that the negative income tax experiments were disruptive, particularly for black families. This led some early advocates to withdraw support (Moynihan 1973). A decade later, the data were re-analyzed and the conclusion that recipients were more likely to divorce was called into question. However, by that time, policy had already moved on to other issues and B.I.G. was no longer on the radar (Cain and Wissoker 1990).

In Canada, interest in basic income has re-emerged every few decades. In 1984, the Royal Commission on the Economic Union and Development Prospects for Canada, also known as the Macdonald Commission, included a recommendation for a Mincome-like programme that was never implemented. In the 1990s, cost estimates were once again constructed, but B.I.G. was not introduced. Instead, Canada has slowly drifted towards a gradual introduction of programmes that look a lot like B.I.G. for parts of the population. The earliest incarnation was the guaranteed income supplement (GIS), modelled on an early version introduced in Ontario, which supplemented Old Age Security (OAS) for seniors with the lowest incomes. This was a form of B.I.G. for seniors. Most recently, the Canada Child Benefit has been rationalized and made more generous. It can be seen as a B.I.G. for families with children under 18. Neither children nor people over 65 are expected to work, so offering generous social programmes for these groups is relatively easy politically. Working age adults, however, are left to struggle with an inconsistent set of income assistance and disability support programmes, most (but not all) offered by provinces. These existing programmes have many well-documented inadequacies, but the fear persists that offering B.I.G. to working age adults will lead people to work less.

is adequate income and an ability to predict how bureaucratic discretion will affect those incomes. Although some attempts have been made to overcome the financial disincentives in existing programmes that sometimes discourage people from trying to become financially independent, the stigma associated with income support programmes still exists. People with disabilities must still go through a trying process of qualification to access benefits. And, most significantly, the level of support is simply not adequate to meet people's needs. This inadequacy is particularly marked in the case of single adults without children.

The second reason for considering B.I.G. once again, however, is that the world has changed dramatically in the past forty years. The new economy has been revealing itself for many years, but since the 2008 financial crisis, it has become increasingly impossible to ignore the growing numbers of workers who spend many years or their entire careers working on insecure, short-term contracts. Young people just entering the workforce struggle to find secure employment that makes use of their training and offers them anything like the salary, security and range of benefits previous generations took for granted. Older workers, displaced by technology, often lack the skills to compete for

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## Individuals who must rely on social programmes are **Still** not all treated with the **dignity and respect** that any of us ought to expect...

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If we have already experimented with B.I.G. in Canada and, despite its apparent success, no B.I.G. programme was developed, why are we considering the policy once again? The first reason is that, despite the much greater complexity of our social support network today relative to that in place in the 1970s, many of the flaws that existed then still exist. Individuals who must rely on social programmes are still not all treated with the dignity and respect that any of us ought to expect in our interactions with government. Application and monthly reconciliation for income support means that families never know with certainty how much money they can expect to receive because of various penalties imposed for breaking one or more of the bureaucratic regulations that govern the programmes. This limits their ability to plan, and exposes recipients to charges that they lack "financial literacy", when what they lack

the jobs that exist. The workplace has never been welcoming to people with invisible disabilities, and support programmes offered by the state are under pressure, as struggling workplaces faced with global competition offer even less room for the supports required by these workers. People who leave the workplace because of their own poor health, or to support family members, often do not qualify for any support until a lifetime worth of savings, intended to finance a reasonable retirement, is exhausted.

B.I.G. offers ways to address some of these policy gaps, but we need to understand the choices involved in turning the idea of basic income guarantee into a specific policy that can be applied in the real world, and integrated with a range of existing and not entirely consistent taxation and social policies. Turning an idea into a policy requires careful choices and some compromise.

## WHAT IS THE PURPOSE OF BASIC INCOME GUARANTEE IN CANADA TODAY?

The social costs of poverty are so broad and its effects are so pervasive that any programme that successfully reduces the breadth and depth of poverty can be expected to have secondary effects on everything from healthcare, to food security, to education, to criminal justice, to child development, to social cohesion.<sup>15</sup> Social scientists whose work addresses each of these issues, therefore, have advocated for a B.I.G.<sup>16</sup> Others have examined B.I.G. and recognized that it might serve well to encourage people to participate in the paid labour market because B.I.G. might supplement income from existing jobs, which are increasingly short term, poorly paid and without benefits.<sup>17</sup> Still others wonder whether a B.I.G. might stimulate entrepreneurship.<sup>18,19</sup> That broad range of outcomes, however, has also been used to criticize B.I.G., claiming that its advocates cannot even agree on its purpose.<sup>20</sup>

15 | Alexa Briggs, Celia Lee, John Stapleton. *The Cost of Poverty in Toronto*. November 2016.

16 | Brownell, M. et al. 2016. *Unconditional Prenatal Income Supplement and Birth Outcomes*. *Obstetrical and Gynecological Survey* 71(10):582-583 · October 2016. See also work by Valerie Tarasiuk and her research group PROOF: <http://proof.utoronto.ca/food-insecurity-in-poor-canadian-seniors-is-greatly-reduced-when-guaranteed-annual-income-kicks-in/>.

17 | Strobel S, Forget EL. 2015. *Revitalizing poverty reduction and social inclusion*. *Manitoba Law Journal*. 37(2): 259 – 276.

18 | Forget EL, Marando D, Surman T, Urban MC. *Pilot Lessons: How to design a Basic Income Pilot Project for Ontario*. Mowat Research #126. September 2016. Available here: [https://mowatcentre.ca/wp-content/uploads/publications/126\\_pilot\\_lessons.pdf](https://mowatcentre.ca/wp-content/uploads/publications/126_pilot_lessons.pdf)

19 | Seddon, Matthew, Brookfield Institute: <http://brookfieldinstitute.ca/2016/07/04/basic-income-helping-hand-entrepreneurship/>

20 | See Mendelson (2016).



## The fundamental purpose of B.I.G. is to reduce the breadth and depth of poverty in Canada.

How can an experiment tell us whether B.I.G. “worked”? Poverty is a lack of income necessary to live a life with dignity. More income gives people the opportunity to make better decisions and to live a better life. Why, then, do so many advocates for B.I.G. focus on other measures? Why do we need to justify an anti-poverty measure by showing that it also has other beneficial effects?

Most people would argue that poverty makes people unhealthy and unhappy. This is certainly the premise that led the Canadian Medical Association, the Canadian Association of Social Workers, the Ontario Public Health Association, the Canadian Public Health Association and so many others to support B.I.G.

## Reducing the depth and breadth of poverty will make people healthier and happier.

How can an experiment tell us whether B.I.G. makes people healthier and happier? The easiest way to find out is to ask participants and to compare their responses to what they told us before they received a B.I.G. or to compare their answers to a matched control group that does not receive a B.I.G. We can survey people and ask questions that have been widely used in population health surveys across Canada and around the world for many years. In the same way that we determine whether people face food insecurity by asking them, among other things, how often they go without meals, we can ask people whether they feel themselves to be very healthy or less healthy, or very satisfied or less satisfied with various aspects of their lives, or how much stress they face from particular sources.

If B.I.G. reduces the depth and breadth of poverty, and this makes people healthier and happier, why do we need to measure anything else? The answer is that we routinely collect a great deal of data about peoples' lives. This data is less subjective than asking people how healthy they feel: we know whether they go to their doctors and why; we know what medications

people are prescribed; and, we know how their children are doing in school. Looking at these kinds of routinely collected data will provide another source of evidence about how healthy people are, and how well they are doing in different aspects of their lives.

This data, however, also tells us something more. Many of the social programmes we currently offer are affected by how healthy and happy people are at the time. Healthcare use increases when people are unhealthy. This change in usage is sometimes complex. If families, for example, receive a B.I.G., they might be less inclined to visit a family doctor complaining of stress or depression, as happened in Dauphin. On the other hand, they might be more likely to fill prescriptions that they might not have filled in the face of more immediate concerns. If they take their medication as prescribed, will that lead to fewer visits to the emergency department or fewer hospitalizations?

## Healthier and happier people will interact with other social programmes, such as healthcare and education, in different ways than less healthy and happy people.

Will healthier and happier people result in increased or reduced demand for other services in the short or long run? What will be the net costs of these behavioural changes? Families that face less financial stress may find it easier to feed and care for their children, and some might be less likely to interact negatively with Children's Aid. Children tend to do better in school if their families are less stressed, requiring fewer resources to be committed to special education. This kind of data allows us to know more about how families function and to estimate the excess costs that poverty imposes on our other social programmes. How much of our healthcare budget, for example, is used to address the consequences of poverty rather than bad luck or bad genes? Shifting our investment upfront to tackle poverty through B.I.G. might lead to long-term savings.

If we show that use of the healthcare system declines for families that receive a B.I.G., this is another secondary benefit of the programme. It is not essential to show that this happens in order to demonstrate that a B.I.G. programme should be developed. It is sufficient to show that

the depth and breadth of poverty are reduced because that is the fundamental purpose of a B.I.G. Moreover, even if healthcare costs are reduced by a B.I.G., these are not dollars that can be reallocated from healthcare to finance the upfront costs of the B.I.G. programme. That is, we might expect the rate of increase of healthcare costs to slow if B.I.G. is introduced. Similarly, we might expect demand for services provided by Children's Aid to decline if families are less stressed. Paradoxically, demand for job training programmes might increase. Examination of routinely collected administrative data will provide more information about how B.I.G., and other social programmes that provide services to Canadians, are related.

If the fundamental purpose of a B.I.G. is to reduce the depth and breadth of poverty, the fundamental purpose of a B.I.G. experiment is twofold. First, it must demonstrate that B.I.G. did indeed reduce the depth and breadth of poverty. (And, as argued above, it might collect additional data about secondary effects.) Second, a B.I.G. experiment must, to the extent feasible, address any concerns that policymakers and the public have about the unintended consequences of B.I.G.

## A B.I.G. experiment can determine how labour market behaviours of different population groups change as the design of a B.I.G. changes.

Some people fear that introducing a B.I.G. will discourage people from working.<sup>21</sup> Others contend that, while this effect might not be universal, some demographic groups (such as young people) will choose to work less. Still others suggest that it is not the B.I.G. itself, but the way that the B.I.G. is designed that can encourage people to work more or less. In particular, they

suggest that if the B.I.G. is targeted so that the allowance is reduced as income increases, this might cause people to work fewer hours in order to maximize their benefit. The negative income tax experiments were designed to answer precisely these questions, and the overall results showed that primary earners (usually adult men) changed their work habits very little, while secondary earners (usually married women) reduced the number of hours they worked somewhat more (Hum and Simpson 1993, p. 448). The response by women may be an artifact of the 1970s; women were just entering the labour force in large numbers and many still had part-time, low-paying jobs. Would the effect be as large today, as more families depend on two full-time workers? Adolescents reduced their work hours very significantly. Re-examination of the Dauphin results offered an explanation: instead of leaving school at age sixteen to become financially independent, young men were more likely to stay in school a bit longer and to graduate (Forget 2011a). Imagine the difference in lifetime opportunities for the young men who finished high school in the mid-1970s, compared with those who left school early to take jobs in manufacturing or agriculture—jobs that have largely disappeared in the last few decades.

A new experiment is, itself, an opportunity to test various designs and to examine how work behaviour changes for different population groups, and how behaviour might have changed over the past forty years. For example, people at the beginning and end of their working lives are more likely to reduce the amount they work when they get a B.I.G. than are individuals at the peak of their working years. Women and men might react differently, as might people in different types of families. Most of the evidence that we have suggests that the work effect is likely to be very small overall.<sup>22</sup> The experiment will tell us how strong this effect is.

# WHAT ARE THE DESIGN PRINCIPLES BEHIND A BASIC INCOME GUARANTEE IN CANADA?

The details do matter, and it is impossible to argue for or against B.I.G. without knowledge of how, exactly, the B.I.G. will be designed. Many of the design principles are explored in the Segal discussion paper and, even now, are under discussion among communities of interest across Ontario (Segal 2016). In this section, we explore a version of B.I.G. consistent with the Segal discussion paper and consistent with the Mincome design.

## **B.I.G. should be targeted, and support should be gradually withdrawn as income increases.**

There are, in theory, two variants of a B.I.G. In one, sometimes called a demogrant, everyone receives the same B.I.G. no matter their circumstances. This is the B.I.G. being tested in Finland, the Netherlands and Oakland, but a demogrant has never been seriously considered in Canada. Instead, a B.I.G. is imagined to work like a refundable tax credit—much as the Canada Child Benefit works. Families with no other income receive the maximum payout. As income from other sources increases, the benefit is reduced but less than proportionately. This version is sometimes confusingly called a negative income tax (because it might, but it need not, operate through the income tax system). This is the version that was tested across North America in the 1970s.

This means that there are two things to be decided when a B.I.G. is introduced: what should be the maximum payout, and how quickly should the payout be reduced as income increases? The tax-back rate determines how quickly the payout declines. The higher the tax-back rate, the more basic income guarantee is targeted towards low-income recipients. The lower the tax-back rate, the larger the proportion of the population that will receive at least some benefits.

The Canada Child Benefit has a relatively low tax-back rate, with the result that some 90 percent of Canadian families with dependent children receive at least some benefit. Some people think that political support for a programme will be higher when many people receive a benefit than would be the case if the programme were more targeted.

Tax-back rates are also important because they are one factor that might influence whether and how much people who receive a basic income guarantee choose to work. If working is an important concern, then low tax-back rates will be preferred. It is, however, important to remember that factors other than tax rates influence whether and how much people work.

## **B.I.G. should be targeted towards adults—those aged 18 through 64.**

People in all age groups experience poverty in Canada, but single adults without children have the least support from existing programmes. Those 65 and older have OAS and the GIS to rely upon, and these programmes are well-designed to meet the needs of seniors. Families receive the Canada Child Benefit for children under age 18. B.I.G., in this model, is primarily designed to replace income assistance and the income replacement portion of disability benefits—in Ontario, Ontario Works (OW) and Ontario Disability Support Programme (ODSP).

The benefit unit is the individual or family that is used to calculate the size of the payment. This is different from the decision about which family member should receive the payment. In Canada, we pay income taxes as individuals but in many cases, such as the Canada Child Benefit, the size of the benefit we receive depends on family income.

If the individual is chosen as the benefit unit, the individual receives the same benefit no matter what family arrangement she or he lives in. This has the advantage that the programme creates no incentive or disincentive to marriage, and there is no requirement for a bureaucracy to determine whether or not individuals living in the same household are in a family arrangement. This might empower individuals in unsatisfactory marriages because they can leave at any time with no monetary repercussions. One might expect this ability to leave to reduce family stress and possibly even family violence.

If the family (the applicant, the spouse or partner if one exists, and their dependents) is chosen as the benefit unit, as it is for the Canada Child Benefit, payments to a family are generally somewhat less than they would be for the same number of unattached individuals. This is supposed to reflect the additional costs that are associated with living alone because families living together benefit from some economies of scale. It costs less than twice as much to feed and house two people than one person. The decision about how to define the benefit unit will affect the overall cost of the programme.

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**...payments to a family are generally somewhat less than they would be for the same number of unattached individuals...**

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The trade-off that policymakers must confront is between programme costs, which will be higher if individuals are chosen as the benefit unit, and the additional costs created by a cohort of administrators required to document family arrangements if families are chosen as the benefit unit. The intrusion into private decisions is a non-monetary cost that should not be forgotten.

## **B.I.G. should make no one who depends on existing income support programmes worse off.**

This principle is consistent with the fundamental purpose of B.I.G.; it is designed to enhance material well-being. Some people will benefit more than others, as is the case with any income support programme, and some people who fall outside the target population will not have their incomes directly affected at all. In principle, everyone who receives a B.I.G. should be at least as well off as they are under existing programmes. In practice, this means a careful pilot design that ensures there are no unintended consequences because of the way a B.I.G. interacts with other programmes.

## **Costs of B.I.G. should be allocated to those with the greatest capacity to bear the burden.**

It is, however, inevitable that some people in society will be worse off. If there are upfront costs associated with a B.I.G. programme, then someone needs to pay the costs. Personal income taxes, or corporate taxes, or sales taxes, or some combination of these, must yield enough revenue to pay for the programme, or existing programmes must be eliminated and their funding reallocated. For example, if B.I.G. is designed to replace income assistance, that would yield at least \$15 billion across Canada. However, if B.I.G. gives more people higher stipends than existing income assistance programmes, then it will cost more than existing income assistance programmes.

B.I.G. will carry a net cost that must be paid either by eliminating or redesigning other income support programmes, increasing one or more taxes, or some combination of these. If taxes are to be increased, attention ought to be paid to ensure that the tax burden falls on those with the greatest capacity to bear it; i.e. higher-income taxpayers. If programmes or tax expenditures are to be redesigned or eliminated, the net effect should be to ensure that those with the greatest capacity to bear the burden, do so.

## **Additional supports should depend on level rather than source of income.**

Some individuals who currently receive OW or ODSP receive additional benefits such as Pharmacare. These programmes should be redesigned so that eligibility depends on the level of family income rather than its source, as is the case in some other provinces.<sup>23</sup> That is, low-income working people should have access to the same programmes as families that receive incomes through income support programmes. If the programmes are necessary to offset the effects of poverty, they should be more broadly available. Making such a decision would also have the beneficial effect of not discouraging people from becoming independent.

## **B.I.G. should not be seen as a replacement for all other social programmes.**

B.I.G. is designed to reduce the depth and breadth of poverty. Consequently, it makes no sense to eliminate other social programmes that have more specific goals, such as healthcare, job training, subsidized daycare, and so on. Employment Insurance and the Canada Pension Plan are self-financed and serve very specific purposes in the economy—insuring against short-term job loss, and saving for retirement. There is no reason to eliminate these programmes. On the other hand, OW and ODSP are income support programmes and can be folded into B.I.G., as can a variety of provincial and federal refundable tax credits, such as the GST credit and the Working Income Tax Benefit (WITB).

Some critics of B.I.G. suggest, rightly, that B.I.G. cannot solve all social problems (Mendelson 2016; Yalnizyan 2016). However, this is a criticism that could be levelled against any social programme. Some low-income individuals lack financial literacy and might not even have bank accounts. Some individuals lack the capacity to make rational decisions, either because of mental health or addiction issues, illiteracy, or for other reasons. Some people are homeless and, without a fixed address, reaching them with B.I.G. will be a challenge. These are all real challenges that ought to be addressed, but existing income support programmes such as OW also face these challenges. None of them constitutes a valid reason for evading necessary programme innovations.

## WHAT WILL B.I.G. COST?

Many people have attempted to estimate the cost of a B.I.G. for Canada, but the cost will depend on how the programme is designed. Most existing estimates are based on assumptions quite different from the ones outlined above. These estimates fall into three categories.

The simplest and least useful estimates are based on the premise that every Canadian will receive the same amount of money and none of this will be recovered through the tax system. The cost, then, becomes the payout times 36 million. If 36 million Canadians each receive only \$1,000, it would cost \$36 billion to run a totally inadequate B.I.G. programme!

More serious are those who attempt to demonstrate how increases in the payout or reductions in the tax-back rate lead to an increase in the upfront costs of the programme. These are usually based on some kind of spreadsheet that allows individuals to vary the parameters and see the consequences for themselves. This is a useful conceptual exercise, but limited by the fact that the programmes are rarely targeted to specific population groups, there is no consideration of which programmes might be folded into or replaced by a B.I.G., and there is no calculation of net costs. The designs are simplistic at best and fundamentally misleading at worst.

Costing exercises that should be taken seriously are those based on the Social Policy Simulation Database and Model (SPSD/M)—the microsimulation model routinely used by various levels of government to calculate the costs of the

budget. David McDonald, for example, undertakes the Herculean task of costing a variety of B.I.G. designs using this methodology and he does it very carefully.<sup>24</sup> None of his designs are similar to the one proposed by Hugh Segal, the assumptions of which are outlined above, but his cost estimates are (unlike some that have received more attention) reasonable. Robin Boadway, Katherine Cuff and Kourtney Koebel have a similar costing exercise, and again the costs envisioned are like those associated with other large programmes (Boadway, Cuff and Koebel 2016). Harvey Stevens and Wayne Simpson designed a much smaller programme, costed out using the same methodology, which delivered a revenue-neutral B.I.G. by making some non-refundable tax credits refundable and eliminating others (Stevens and Simpson 2016). In all cases, the relationship between the costs of a B.I.G. and its design becomes very clear.

There are several factors to keep in mind when evaluating these estimates. First, the costs are very sensitive to decisions made about the payout levels, the population targeted, the definition of the benefit unit and especially the tax-back rate. Restricting the programme to those between 18 and 64 reduces the costs of the programme significantly, as does increasing the tax-back rate to 50 percent from 35 percent. Second, OW and ODSP (and their counterparts across the country) currently cost Canadian taxpayers over \$15 billion each year. If these programmes are to be replaced by a B.I.G., then the costs of the B.I.G. should be reduced by the \$15 billion no longer required for existing income support programmes. Finally, and most significantly, none of the costing exercises has considered the behavioural responses

of Canadians to the programme. If a B.I.G. reduces the incentive to work and, consequently, many more people rely on the programme than anticipated, the costs will be much higher than calculated. If, as is more likely, there is little behavioural response for most people, then costs will be much more modest. The behavioural response is something we do not yet know without the results of the proposed experiment.

A programme designed as the Segal model, with a payout level set at 75 percent of the Low-Income Measure and a tax-back rate on earned income of 50 percent<sup>25</sup>, assuming no behavioural response and targeted to those between 18 and 64, will cost Canadians approximately \$30 billion a year, less the \$15 billion we currently pay for income assistance. A net cost of \$15 billion annually is not only feasible, it is about 5 percent of federal government expenditure and much less than we currently spend on seniors' benefits. We can afford it if we choose to afford it.

25 | Other transfers from the government to individuals are taxed back at 100 percent.

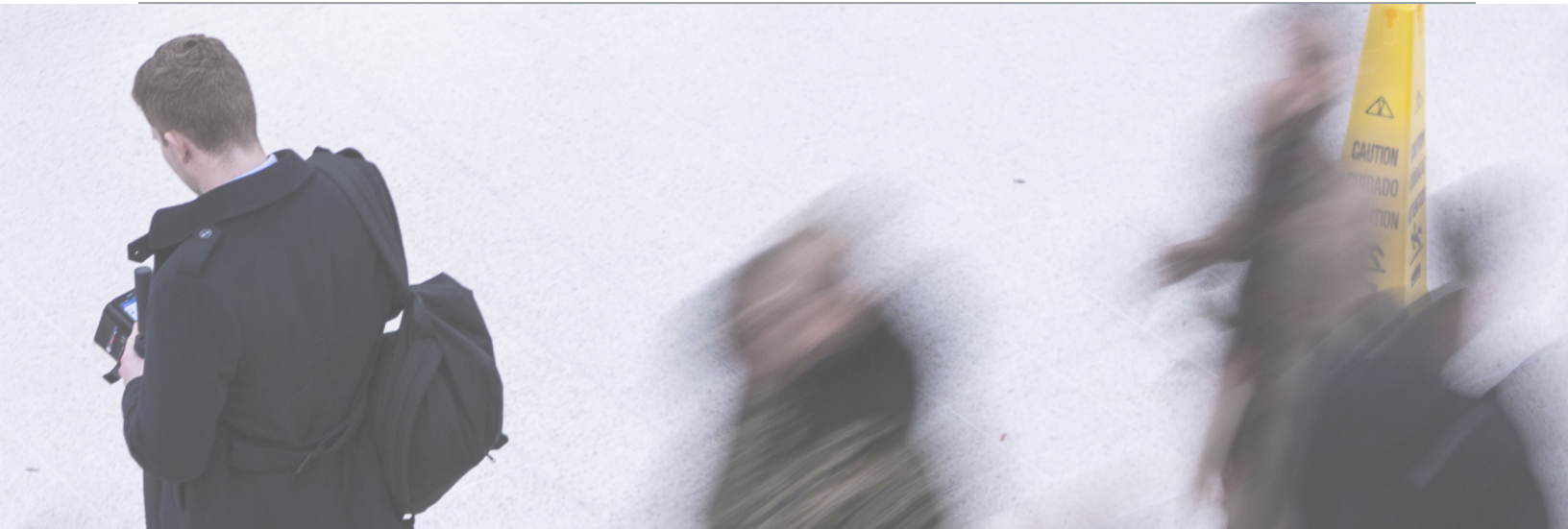


## STORIES OF LIVED EXPERIENCE

Policy gaps that can be addressed by B.I.G. are most apparent when we listen to the real stories of how people interact with the system, but so too are the real challenges of any income support programme. There are important decisions to be made and important trade-offs to consider.

One of the most contentious issues that policymakers will have to grapple with is whether individuals with assets should be able to access a B.I.G. The ability of people to participate in the economy depends both on their income and their wealth or assets. Many individuals with little wage income have significant wealth. Fairness would seem to suggest that a B.I.G. should be reduced for people with assets just as it is for people with higher incomes. It is, however, not quite so simple. Financial assets held outside registered accounts typically generate incomes, which will reduce the amount received just as if they were labour incomes. The asset test is an attempt to take into account assets held in registered accounts such as RRSPs, RESPs and TFSAs which offer special tax treatment, as well as retained earnings in businesses, and real assets, such as vehicles and real estate.





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Until three years ago, Carl was a salesman for a pharmaceutical company who earned an excellent salary, largely in the form of commissions. He was frugal, and had accumulated a significant retirement portfolio. He was regularly head-hunted by competing firms, but remained loyal to a company that had treated him well. Three years ago, there was an industry shakeout and his firm was purchased by competitors. Carl received a buyout which he put into his retirement account, and immediately accepted a one-year contract offered to him by the same firm. Within three months, at age 52, he was diagnosed with lymphoma and went on long-term disability. During his treatment, his contract expired. He finished his radiation and was pronounced well enough

to work by the disability insurance company. At 53, he was out of a job in an industry where insiders know everything about one another. The network he had built over the years consisted of people well aware of his cancer diagnosis. Those who had sought him out in the past sympathized about his health, but were reluctant to hire someone his age who had been diagnosed with cancer. Carl reports that he considers himself fortunate because he has assets many others do not have. But money saved for a retirement that he expected to begin at age 65 is not nearly enough to pay for a retirement beginning at 53. After 30 years in the same industry, what employment prospects does he have elsewhere? Should he be required to exhaust his savings and sell his house before he receives a basic income?

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This is a very difficult political issue for any government. Assets held in registered accounts such as RRSPs and TFSAs have special tax treatment because a social decision has been made to encourage long-term savings. RESPs encourage saving for education. Should an individual who benefits from a B.I.G. not also have the opportunity to save for retirement or for a child's education?

How should we accommodate real estate and real assets such as vehicles? Most income assistance programmes have raised asset limits to allow for the ownership of (at least) modest vehicles, and few people are forced out of the family home when they require income assistance. How much is too much? Any jurisdiction that introduces a basic income guarantee will have to grapple with very different opinions. What seems obvious to some will seem far too generous to others.



I lived in Japan for twenty years, returned to Hamilton last year, have sold my condo and am leaving again. I wasn't expecting the level of unemployment, substance abuse and poverty I have witnessed and experienced. Both my boyfriend and I are around 50 with no dependents. I stopped looking for a job after ten months. (I have been living off an equity loan). My boyfriend has a criminal record and is ashamed to divulge this information. He collects less than \$1000 from ODSP, rents a room for \$400/month and is surrounded by drug users. He has cried to me a few times on the phone because of hunger and his situation. I thought about making an anonymous call to the police about the drug users but where are they going to go? The jail is overcrowded and there aren't enough rehab spots. And what would they do after they got out? A guaranteed minimum income will help people worry less, gain confidence, pay for licenses or training etc. and stop feeling like society's discards. If Ontario chooses a city for a pilot programme, I hope it is Hamilton.

One of the groups that could benefit most from a basic income guarantee is entrepreneurs. We live in a society that highly prizes entrepreneurship, but 15 percent of start-ups fail in their first year and 50 percent will not survive past year five, many because they are undercapitalized.<sup>26</sup> Any income generated is typically invested back in the firm in its first years, or held as retained earnings for future investment because small firms often have difficulty borrowing. Should such assets reduce the entitlement of an entrepreneur to B.I.G., even if a B.I.G. could mean the difference between failure and survival for the kind of small firm that employs most Canadians? Do we want to encourage self-employment and entrepreneurship? Mincome had (relatively generous) asset tests, and the ceiling for farmers (but not other entrepreneurs) was \$20,000.

On the other hand, money is already going to people who do not need it such as: my ex-friend who is sitting on \$2 million in real estate and has been collecting 'welfare' through her children for ten years because she doesn't 'want a measly job for \$40,000 a year'. She receives family help, travels, dines at restaurants etc. Or, my nephew who makes \$100,000 a year, took his family of five on two overseas vacations in one year, receives a small payment for his three children every month and asked to borrow \$40 from me.

I don't agree that the programmes in place now are helping the people who really need it. Giving money to the 'haves' because the government believes they will buy more and stimulate the economy (and go further into debt), while others are starving, is bizarre and corrupt. It is not creating a fairer society it is creating animosity.

If a guaranteed minimum income is introduced, I hope assets, including principal residence and vehicles, are taken into consideration. – I. McNally



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I was 19 years old when Mincome was introduced in Dauphin Manitoba, and my husband was a few years older. Both of us always worked – I was in retail and my husband worked seasonally in construction. Mincome offered a hand-up, and we were able to save for a modest down-payment on a small house. We never had difficulty putting food on the table. It was a good time in Dauphin. The streets were full of people and there were always people stopping for a beer on the way home from work.

We borrowed some money from our family and decided to open a small record shop. The business paid its own way but we couldn't pay ourselves. We were happy Mincome was there to help. When Mincome ended the business began to struggle. People just didn't have the money to spend. In 1979, I think, we closed the shop and moved away. -- Joyce

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On the other hand, do we want to use scarce income support dollars to support firms that are not viable? Is entrepreneurship such an important characteristic that we will continue to support a business that, according to a market test, should close?

The same questions could be asked of social entrepreneurs, who use business principles to address an issue of social concern, such as linking unemployed people with business or employment opportunities, or providing “green” energy, or youth job training . A B.I.G. could help subsidize the creation of these start-ups by protecting them from market forces.

Similarly, writers and artists could subsidize their market earnings through a B.I.G. and spend more time on their creative pursuits. Few people would argue that the market is a reasonable way to assess the social value of poetry or music.

In all these cases, however, we are removing the discipline of the market from the decisions people make about their lives. For young people in particular, the decision to spend another year in a failing business or a garage band allows them to postpone hard decisions about their career path. However, children in well-off families have always had the capacity to explore different paths. Their B.I.G. was provided through family resources. A B.I.G. provided through social policy is one way to help level the playing field.

The fundamental purpose of B.I.G., however, is to ensure that everyone has the financial capacity to live a modest but dignified life. In all provinces, people with disabilities receive higher income support under the existing scheme than do individuals who receive income support from the general scheme. Does the existing disability support scheme meet the needs of recipients?

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I am 34 years old and I have epilepsy. Kira is my seizure response dog. I need a job that not only can accommodate my needs, but Kira as well. In the school setting there were children and staff members with allergies to dogs, so I could not work in those classrooms.

I was a casual Educational Assistant, which meant I was on call. That in itself was stressful because my schedule was unpredictable. I took as many calls as I got as I wanted to make enough money to get out on my own, but realistically, working a full week was too hard on my physical health, and that led to stress and took its toll on my mental health. I eventually resigned from that position.

Since I've gotten back on my feet again I've spent time looking in the papers for a suitable job, but I have limitations, like I am unable to drive, so that restricts me from a lot of job possibilities, as well as the location of a workplace—I need something near public transportation. I can't work long hours or in extreme heat... all the things I looked at were things I would not be able to do, even if I thought I could. I wish my seizures were under control but they are not. -- Amanda

”

Disability support programmes, which vary by province, typically consist of several components, some of which are designed to assist individuals seeking employment or education, or to provide particular forms of personal assistance or medical devices. Another component is income support which, in most provinces, is somewhat larger than income assistance for those who do not qualify for disability support. While people living with disabilities will require specific programmes to assist with medical devices, personal assistance and so on, there is a good argument to be made for integrating the income support component into B.I.G. as in the case of income assistance for those without disabilities.

The existing programmes, which require individuals to qualify on both financial and

medical grounds, create substantial barriers for qualification. Medical practitioners are asked to complete forms describing in detail the medical conditions and consequences for self-care and involvement in the community and workplace. It is particularly difficult to use these forms to document mental health conditions, and whether one is approved often depends on both the skill of the professional as well as the nature of the condition. There is, of course, an appeals process. Individuals who do qualify are asked to re-appear at a future date so that programme staff can determine whether the medical condition has changed. There are also periodic reviews during which recipients are asked to meet with a caseworker. The system is emotionally draining, even for those who qualify.

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As for the process of being approved to receive ODSP, how low do you want a person to feel? It is a system that needs to change. They dig really deep into your personal life to see if you qualify, and then review it as if your disability is going to go away. I receive \$928 a month, which includes an allowance of \$78 for my service dog.

I have also been on the Rent-Geared-to-Income Housing list for 12 years. I understand that everyone needs a place to live and right now I have that with my parents. However, not being able to live on my own does in a way, deprive me of a chance at independence. -- Amanda

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The process is even more disheartening for the large number of people with invisible disabilities. Often denied disability support because they cannot demonstrate an inability to work, they nevertheless struggle with the demands of the workplace. Even low-waged jobs often impose greater demands for conformity than they can tolerate.

As the labour market becomes more challenging, there is less and less room for square pegs. The soft skills that are hard to list and document are impossible demands for some. Shaun Loney, a social entrepreneur from Winnipeg, recognizes the many barriers to employment faced by low-income

Canadians. He employs people often deemed unemployable, and puts them to work in everything from bedbug mitigation in social housing, to advanced green energy technology. Focusing primarily on workers from the Indigenous community, he tackles barriers such as criminal backgrounds, lack of formal education and substance abuse issues, then trains workers that are vulnerable to unemployment in advanced, modern green energy methods such as solar power, home retrofitting, and geothermal infrastructure development. A very modest B.I.G., Shaun reports, would make a world of difference for his employees.

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I got a group of my co-workers together here at the social enterprise centre; people who were involved in the drug trade at one time and said ‘would you have been involved in the drug trade if you had a stream of income? And the answer was an emphatic no,” Loney says. “You don’t sell drugs because you like selling drugs, you’re selling drugs for income and you don’t do it if you have income. – Shaun Loney

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The world is not binary and there are many people who struggle to find and keep jobs even though they do not qualify for disability support. Even people who do qualify are not necessarily well treated by the process. Removing the barrier between income assistance for people living with a disability and everyone else would go some way towards fully including people with disabilities. However, the current system offers those who qualify for income support under disability schemes more money than others, and eliminating this differential will not be uncontroversial.

## CONCLUSION

We need a B.I.G. in Canada today because **employment is becoming increasingly precarious**, leading to greater income insecurity. We need B.I.G. because our social policies were constructed at a time when it was easier to distinguish between those of working age and the retired, the disabled, students, those temporarily unemployed, the long-term unemployed, and those not in the workplace. As these categories blur, greater numbers of people find themselves falling between the gaps. We need B.I.G. because the social programmes that used to be delivered through our employment in unionized shops are no longer within reach of many Canadians.

It would be relatively easy to implement a B.I.G. in a new society with no social programmes in place. Perhaps that is why they are so attractive in many low-income countries that can bypass all the errors and rigidities we have cemented into our existing programmes. We, however, face the very challenging task of trying to integrate B.I.G. into all our existing social programmes. We must decide which to modify and which provide necessary support that must be maintained. It is not simple, but it is necessary.

Now is the time to address, head-on, the challenges and trade-offs that are necessary to create a universal B.I.G. that can meet the needs of Canadians in the 21st century.

**The challenges are real, but so too are the costs of doing nothing.**



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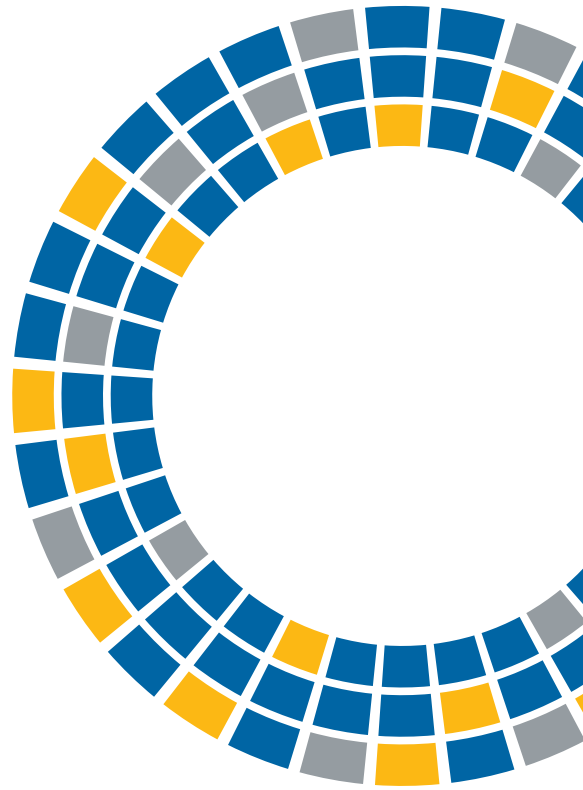
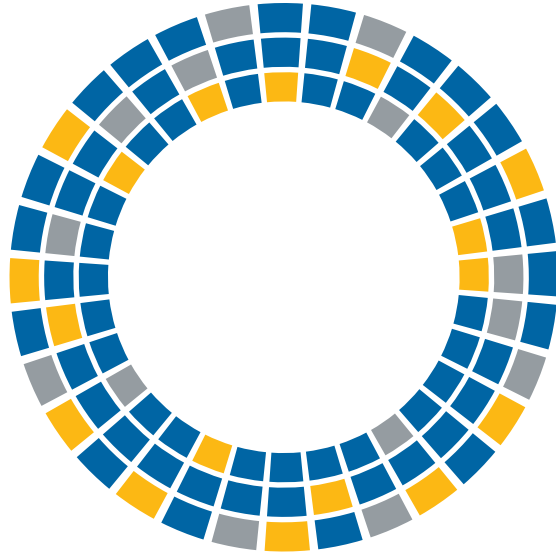
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