

Intelligence MEMOS



From: Kevin Milligan
To: Jean-Yves Duclos, Minister of Families, Children and Social Development
Date: July 4, 2016
Re: **DARE TO DREAM, BUT DO THE MATH**

Minister, in your former academic life you wrote many papers exploring the benefits of placing Canada's income transfers into one package—sometimes called a 'Basic Income' or a 'Guaranteed Minimum Income'. You are aware of the possible advantages of simpler, more transparent administration and improved work incentives for low earners now subject to harshly income-tested benefits.

In the wake of the [recent referendum in Switzerland](#), Basic Income is gaining global attention. However, to ensure a productive conversation, we need to start with some basic math that puts tight constraints on Basic Income. In short: we should listen to society's dreamers, but we must also heed the accountants.

There are three potential targets for a Basic Income. We want to ameliorate poverty with a big basic transfer. We also want to improve work incentives by lowering the clawback rate on income-tested benefits for low earners. Finally, we want to work within the existing envelope of income transfer programs so we don't need to raise taxes.

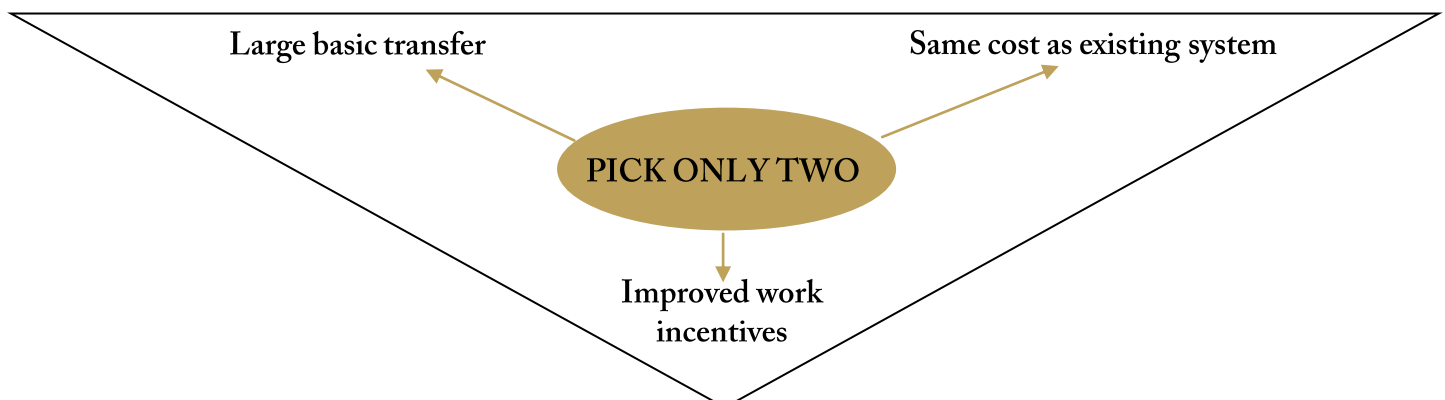
All three are attractive features, but it's impossible to satisfy all three at once. That is, there is an impossible trinity—you can only satisfy two of the three attributes. Here's why.

If we took the existing income transfer envelope of \$165 billion and handed out per-capita cheques to each Canadian, we could improve work incentives because benefits would no longer be income tested. But, the resulting basic transfers would be small—less than \$400/month each. Poverty would increase.

Instead, we could try a universal \$1,500/month basic transfer without income testing. But, this plan would bust the treasury at a cost over \$600 billion, nearly four times the existing \$165 billion transfer system.

A third option fits the \$1,500/month payment within the existing \$165 billion envelope through income testing. Unfortunately, even a steep 75 percent phaseout rate would leave us tens of billions of dollars above the existing system's cost, and the program would harm work incentives.

The basic lesson about Basic Income is this: income transfer policy always involves difficult trade-offs between different goals. It's worthwhile paying attention to work incentives, benefit adequacy, and program complexity. But, we shouldn't pretend that putting a new label on our income transfers relieves us from making difficult choices.



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