

THE CONCEPT OF
GUARANTEED
MINIMUM
INCOME
AND ITS APPLICATIONS

EXPERT
COMMITTEE
PROGRESS
REPORT

SUMMARY



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The concept of guaranteed minimum income and its applications – Summary – Expert committee progress report

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INTRODUCTION

The Expert Committee on Guaranteed Minimum Income is submitting to the Minister of Employment and Social Solidarity and the Minister of Finance its progress report, titled “The Concept of Guaranteed Minimum Income and its Practical Applications.”

The Expert Committee was set up by the government in June 2016 to “make recommendations to the Minister of Employment and Social Security and the Minister of Finance on matters pertaining to income support”¹ with the goal of exploring “new approaches through which to fight poverty more effectively, promote social inclusion and move toward introducing a guaranteed minimum income.”²

□ Member of the Expert Committee

The examination of the guaranteed minimum income was entrusted to a committee made up of:

- Dorothee Boccanfuso, full professor, Département d'économique, École de gestion de l'Université de Sherbrooke, Committee chair;
- Jean-Michel Cousineau, full professor, École de relations industrielles, Université de Montréal;
- Raquel Fonseca, associate professor, Département de science économique, École des sciences de la gestion, Université du Québec à Montréal;

The work of the Expert Committee is supported by the Ministère du Travail, de l'Emploi et de la Solidarité sociale and by the Ministère des Finances.

□ Two themes for reflection

In its progress report, the Expert Committee is reporting on the first stage of our work. The Committee focused its reflection on two themes:

- the theoretical foundations and the definition of guaranteed minimum income;
- the applications and experiments with guaranteed minimum income implemented or planned in other jurisdictions, with an analysis of some of these experiments in terms of the theoretical foundations and definition retained.

¹ Ministère du Travail, de l'Emploi et de la Solidarité sociale and Ministère des Finances, *Mandate of the Expert Committee on Guaranteed Minimum Income*, https://www.gouv.qc.ca/EN/RevenuMinimumGaranti/Documents/ExpertCommitteeGuaranteedMinimumIncome_Man date_20160126.pdf.

² Ibid.

1. THE THEORETICAL FOUNDATIONS AND THE DEFINITION OF GUARANTEED MINIMUM INCOME

The meaning of the term “guaranteed minimum income” must be specified because it is used to designate income support plans that sometimes differ significantly.

Guaranteed minimum income is defined as a plan set up by a government to provide every person the guarantee of an income of a certain level.

Thus, guaranteed minimum income presents three characteristics:

- It is an income,³ which means that the payments are made in the form of money, rather than goods or services.
- The income is a minimum, which means it is defined based on a certain threshold.
- The income is guaranteed, in the sense that everyone is certain to have access to these minimum resources.

Considering these basic characteristics, the Committee decided to present the guaranteed minimum income systems in three categories, based on whether they take the form of a universal allowance, a negative income tax or a basic income support plan according to the designation adopted by the Committee.

□ Universal allowance

Universal allowance could be qualified the “absolute” form of guaranteed minimum income, in the sense that it fully corresponds to the concept in its integrality.

■ Properties

Universal allowance is a universal income with the following properties:

- Universal allowance is unconditional, which means it is paid to everyone, regardless of age. It is paid regardless of resources (income and assets) and is therefore uniform. It is paid with no requirements in exchange.
- Universal allowance is combinable.
- Universal allowance is individual.
- Universal allowance is not taxable.

³ The term income is used here in its generic sense.

■ Advantages

Universal allowance appeals to many researchers due to the anticipated consequences of its various properties, and especially its unconditionality.

Universal allowance offers many advantages: it is administratively simple, inexpensive in terms of administrative costs, perfectly transparent, non-stigmatizing for the neediest people and a source of independence within the household. It offer the beneficiary the possibility to make choices.

■ Questions

Despite these advantages, it must be acknowledged that in this absolute form, guaranteed minimum income is not in effect anywhere. This can be explained by the unresolved questions its application raises.

Universal allowance raises unresolved questions concerning:

- the real impact on poverty, the incentive to work and the job market (unemployment and salaries);
- high cost and financing;
- the apparition of winners and losers based on the level of the allowance and how it is financed;
- social acceptability.

□ Negative income tax

Negative income tax can be defined simply as a benefit paid by the tax administration to the taxpayer, calculated on the basis of that taxpayer's income and integrated with the taxation system, based on certain terms of application.

Negative income tax is a transfer that takes the form of a refundable tax credit,⁴ beyond which any other earned income is taxable. It is the refundable nature of the tax credit that allows for the payment of a negative income tax to people with no or low earned income.

In its most complete form, negative income tax is based on a uniform and universal refundable tax credit, which makes it similar to universal allowance.

■ Properties

The properties of negative income tax stem from the uniform and universal nature of the refundable tax credit and its integration with the taxation system.

- Negative income tax involves a refundable tax credit, which is non-taxable by definition.
- Negative income tax is conditional on earned income (and is therefore reduced based on payable income tax), but paid regardless of assets.
- Negative income tax is conditional on filing an income tax return.
- Negative income tax is combinable, and it is not necessarily individual.

■ Advantages

Compared to universal allowance, negative income tax offers many advantages that remedy some of the issues raised with universal allowance.

Negative income tax may be more socially acceptable than universal allowance. It can be funded by personal income taxes. It leads to lower total transfers than universal allowance.

By moving from its complete form, negative income tax can respond to particular situations. It allows for some flexibility in terms of application at the individual level. It gives the beneficiary the opportunity to make choices, if negative income tax is applied at the individual level.

These advantages depend on the level of the negative income tax and the taxation structure.

⁴ Amount that can be granted to an individual, even if that person has no income taxes to pay.

■ Questions

Negative income tax raises several questions.

In comparison with universal allowance, negative income tax is less transparent and less simple. Like universal allowance, the real effect of negative income tax on poverty, the incentive to work and the job market is the subject of discussion.

The terms of application raise questions related to having to file an income tax return, because it is not a given that all potential beneficiaries will be reached. Another question arises from the fact that the payment is generally made after the fact, after the tax return has been filed and checked, because the expected benefits may be delayed. This issue can be mitigated with source deductions and advance payments.

The funding may create winners and losers, depending on the level of the allowance and model chosen to finance it.

As is the case with universal allowance, there are no known examples of the full application of negative income tax. Many examples of partial negative income tax systems can be cited, however, in the jurisdictions of developed countries, starting with the current systems in Québec and Canada as a whole.

□ **Basic income support plans**

The third form of guaranteed minimum income involves basic income support plans, with characteristics that reflect the initial definition of guaranteed minimum income but do not provide all the requirements of the most absolute form—universal income—or the most complete form of negative income tax.

These are the income support methods defined in most developed countries, to provide the most vulnerable people with minimum resources based on a minimum threshold.

These types of assistance are guaranteed in the sense that anyone without resources can access them. However they are paid only to people targeted for a lack of resources.

In some cases, these types of assistance may also be classified in the least complete forms of negative income tax.

■ **Properties**

The assistance granted under basic income support plans is conditional:

- on income and assets;
- often on work availability requirements;

The assistance granted under basic income support plans is:

- generally combinable;
- generally not individual;
- often taxable;
- usually reduced based on income.

■ **Advantages**

Basic income support plans are financed more easily through taxation or other income sources, because the total costs are lower.

They can respond more quickly to specific situations.

■ Questions

Basic income support plans are offered within highly varied programs. Their implementation and impact have been subject to extensive analysis and multiple studies, raising many questions related to the social safety net available in a given community.

Basic income support plans raises questions related to:

- the real impact on poverty, the incentive to work and the job market;
- their accessibility;
- the cost of administration;
- their complexity;
- their transparency;
- the stigmatization of the neediest.

The funding may create winners and losers, depending on the level of the allowance and model chosen to finance it.

All developed countries have implemented varying degrees of basic income support with properties that, at least partly, reflect the initial definition of guaranteed minimum income.

□ Definition of guaranteed minimum income retained by the Committee

This review of the three forms of guaranteed minimum income and their respective properties demonstrates that the concept can be applied under very diverse conditions, each with its own advantages and questions.

The three forms are based on certain shared ideas, which the Committee will draw on in the pursuit of its work.

The Committee retained as a definition of guaranteed minimum income any system that offers a guarantee of monetary resources for all, with the amount of those resources being related to a minimum threshold.

This definition allows the Committee to take into account programs and ideas that already exist, without distorting the concept.

The mandate entrusted to the Committee by the government, as the Committee understands it, is to explore changes to be made to the current income support system in Québec, starting with this basic definition, to lead to a more complete form of guaranteed minimum income.

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TABLE 1

Summary of the properties of the three forms of guaranteed minimum income

Committee's definition: A guaranteed minimum income is a system that offers a guarantee of resources for all, the amount of these resources being related to a minimum threshold.

| Properties | Universal allowance | Negative income tax | Basic income support plans |
|--|---------------------|----------------------------------|----------------------------|
| Unconditional | | | |
| – Without regard for age | Yes | Not necessarily | No |
| – Without regard for income and assets | Yes | No, conditional on earned income | No |
| – No requirements imposed in exchange | Yes | Yes | Generally, no |
| Combinable | Yes | Yes | Generally, yes |
| Individual | Yes | Not necessarily | Generally, no |
| Non-taxable | Yes | Yes | Generally, no |

2. GUARANTEED MINIMUM INCOME APPLICATIONS AND EXPERIMENTS

In recent years, the concept of guaranteed minimum income has been applied and tested extensively around the world.

The Committee conducted a selective review of the applications and experiments that have been made public for which a sufficient amount of information is available.

Among the applications and experiments reviewed, the Committee identified seven cases that are similar to the realities in Québec. These are developed countries or jurisdictions that implemented income support systems that provide a guaranteed minimum income in its broadest sense.

- The Committee focused on the applications in Alaska and the United Kingdom, both carried out across the entire jurisdiction.
- The Committee analyzed past projects in Manitoba and Switzerland.
- The Committee reviewed three experimental projects on samples of people, who either just started or about to begin, in Finland, the Netherlands and Ontario.

□ **Global interest**

This survey illustrates that there is global interest in the concept of guaranteed minimum income. The committee reviewed 26 applications and experiments in developed, emerging and developing countries.

Since the early 2000s, a significant number of jurisdictions have conducted in income support experiments of varying size that have been presented as a guaranteed minimum income. A similar period of interest occurred in the early 1970s.

The Committee considers that most of these applications and experiments contribute in a very limited way to the Committee's reflections and analyses. It is very difficult to find reliable, accurate information on these projects. It is above all extremely delicate to establish parallels with Québec's situation, to draw lessons for this report. The institutional situation is often too different to establish conclusions about these applications and experiments that could be used in Québec's context.

■ **No applications or experiments in the absolute form of guaranteed minimum income**

The in-depth analysis of some applications and experiments shows that none of these past or current corresponds to the absolute form of guaranteed minimum income, that is, universal allowance. The Alaska Permanent Fund Dividend comes close.

Only the Swiss proposal was a true universal allowance in every regard. The guiding principle of this proposal was nevertheless rejected by referendum.

■ **Information pending**

Pilot projects in Finland, the Netherlands and Ontario will provide some further information about the impacts of the formulas tested on certain groups. We will have to wait at least two years before being able to draw conclusions from these experiments.

■ **Concerns raised**

These applications and experiments usually target the neediest residents. In both cases, the concerns raised involve the cost and funding, the effective impact on the incentive to work and the simplification of the existing system.

❑ **Methodological limitations of the pilot projects**

The Committee notes several methodological limitations in the three current or future pilot projects analyzed, which seem to stem from the very nature of a pilot project.

■ **Limited in time**

The project is limited in time, which has an impact on the reactions and behaviours of the beneficiaries. These same beneficiaries may not behave in the same way if the tested system were to apply without time limits or across the entire territory in question.

■ **Experiment that targets only certain groups**

The experiment only affects the citizens for whom the plan was established. It does not concern other groups in the population, and in particular those who may be the “losers,” largely due to the model of financing for the proposed system.

■ **Some impacts cannot be tested**

Some impacts of the proposed system cannot be tested in a pilot project, because of its short duration and the limited number of participants.

This refers, in particular, to the impact on the job market. For workers, the proposed system may allow them to free up time for training or reorienting their professional activities. For businesses, this system may also lead to changes in behaviour, which could have an impact on salaries and employment.

❑ **Difficulty of an isolated analysis**

It is also very difficult to analyze pilot projects independently from the system these projects may replace or complement, and without reference to the potential overall effects of the proposed system.

□ **Lessons drawn from analyzed applications and experiments**

More specifically, the Committee would like to point out the lessons drawn in the pursuit of its work.

■ **The case of Alaska**

The system in place in Alaska is the closest to a universal allowance, effectively applied across an entire jurisdiction.

Unlike the absolute model, the Alaska Permanent Fund Dividend does not allow the beneficiary to know for certain the amount of the payment that will be received. This unpredictability does not assuage the sense of uncertainty that a universal allowance seeks to reduce.

The system seems irreversible, in the sense that the people are very attached to it.

It is considered to be difficult to sustain, however, notably due to the volatility of the income it depends on.

■ **The case of Switzerland**

The proposed system in Switzerland is a universal allowance. In this case, however, it was not applied because the proposal was rejected by the population. In the debate that led to this rejection, it seems that the matter of social acceptability was of considerable importance.

■ **The case of the United Kingdom**

The system established in the United Kingdom seems to be a hybrid, somewhere between a negative income tax and a basic income support program.

The reform clearly seeks to reduce the costs of the system previously in place and increase the incentive to work.

■ **The case of pilot projects**

In the case of the pilot projects, the objectives pursued – as far as we could identify them – are partly similar to the motivations that guided the British reform.

- In the Netherlands, the main goal is to provide greater incentive to work.
- The Finnish pilot project seeks to encourage work, reduce bureaucracy costs and adapt more effectively to the observed or anticipated changes in the job market.
- In the case of the Ontario and Manitoba pilot projects, a great concern about the general struggle against poverty is observed, including an improvement in the health and education of the neediest residents.

TABLE 2

Summary of properties of certain guaranteed minimum income applications or experiments – Alaska, United Kingdom and Manitoba

| Properties | Alaska | United Kingdom | Manitoba |
|--|---|---|--|
| Unconditional | | | |
| – Without regard for age | Yes | No | No |
| – Without regard for income and assets | Yes | No | No |
| – No requirements imposed in exchange | Yes | No | Yes |
| Combinable | Yes | Yes | Yes |
| Individual | Yes | Not necessarily | No |
| Non-taxable | No | Yes | Yes |
| Form of guaranteed minimum income | <i>Similar to universal allowance⁽¹⁾</i> | <i>Negative income tax similar to a basic income support plan</i> | <i>Negative income tax⁽²⁾</i> |

(1) However, the amount paid in Alaska is not based on a certain threshold, which is one of the three characteristics of guaranteed minimum income.

(2) On a targeted group.

TABLE 3

Summary of properties of certain guaranteed minimum income applications or experiments – Switzerland, Finland, Netherlands (Utrecht) and Ontario

| Properties | Switzerland | Finland | Netherlands (Utrecht) | Ontario |
|--|----------------------------|--|----------------------------------|--|
| Unconditional | | | | |
| – Without regard for age | Yes | No | N/A | No |
| – Without regard for income and assets | Yes | No ⁽¹⁾ | No | No |
| – No requirements imposed in exchange | Yes | Yes | No | Yes |
| Combinable | Yes | Yes | N/A | Yes |
| Individual | Yes | N/A | N/A | Yes |
| Non-taxable | N/A | Yes | N/A | Yes |
| Form of guaranteed minimum income | <i>Universal allowance</i> | <i>Basic income support plan⁽²⁾</i> | <i>Basic income support plan</i> | <i>Negative income tax⁽³⁾</i> |

N/A Property impossible to determine based on available information.

(1) The project is being tested on people with little or no income, but the allowance will be paid regardless of work income earned during the project period.

(2) Does not fully correspond to universal allowance because the project is only for a group targeted by a sample.

(3) On a targeted group.

CONCLUSION

The Committee wanted to establish our work on a solid and clearly understandable basis, setting out the properties, advantages and questions related to guaranteed minimum income systems depending on whether they take the form of a universal allowance, a negative income tax or a basic income support plan.

These three forms differ on many points. They all rely on a common idea, however, which the Committee took as our basic definition: guaranteed minimum income is a system that offers a guarantee of resources for everyone, the amount of these resources being related to a minimum threshold. The Committee will rely on this definition of guaranteed minimum income in the continuation of its work.

The ideas underlying the concept of guaranteed minimum income are more topical than ever, as demonstrated by the high number of applications and experiments in this vein around the world. The selective survey carried out by the Committee confirms this popularity and sheds light on the diversity of experiments conducted, including the institutional context in which they were or are defined. The seven cases analyzed in greater depth offer a wealth of lessons.

These lessons and the conceptual framework that the Committee defined at the outset will guide the next steps of its work.

This work, which will be exposed in the final report, has a clear objective to present the government with recommendations for changes to be made to the current income support plan as it is applied in Québec, to lead to a more complete form of guaranteed minimum income.

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