

A person with long dark hair is shown from the chest up, holding a large, rectangular sign made of brown cardboard. The person's face is obscured by a dark shadow. They are wearing a dark-colored t-shirt. The background is a dark, mottled grey with some white speckles, suggesting a wall or a textured surface. The lighting is dramatic, highlighting the person's arms and the sign.

**WELFARE,
NOT WORK**

**CUTTING
CANADIAN
POVERTY**

OLIVER MACKENZIE

Poverty is often presented in popular discourse as an intractable problem, something that is very challenging to address. This couldn't be further from the truth. With an expansion of the welfare state, poverty and its associated problems¹ can be greatly reduced.

In this paper, I will be discussing the problem of poverty and how to solve it, with an eye towards jurisdictions that have reduced poverty to very low levels already. I will also be discussing alternative methods of reducing poverty and why they fail to address the problem.

What is Canadian Poverty?²³

All poverty measures are calculated by establishing a threshold of a poverty line based on income. Some rely on weighting based on size and region, and others depend on weighting relative to purchasing power parity (PPP) or the median income.

The best known and most well-established measure of poverty is the low-income measure (LIM)⁴, and statistics are available across jurisdictions for poverty using this method. LIM is typically calculated by establishing the poverty line at 50% of the median after-tax income for a single person household. For households containing multiple persons, the LIM is adjusted to account for economies of scale inherent to larger households.⁵

By the LIM, Canada has somewhat high levels of general poverty: 12.1% of Canadians fall below the poverty line as of 2018. This is slightly higher than the OECD average (11.8%) and much higher than countries like Denmark (5.8%), France (8.3%) and even Slovenia (8.7%) and Poland (10.3%).

Canadian poverty line cutoffs by low-income measure (LIM), 2018

<i>Household size</i>	<i>After-tax income</i>
1 person	\$24,183
2 persons	\$34,200
3 persons	\$41,886
4 persons	\$48,366
5 persons	\$54,075
6 persons	\$59,236
7 persons	\$63,982
8 persons	\$72,549

¹ Many negative outcomes are associated with poverty, including homelessness, food insecurity, poor mental and physical health, high levels of criminal victimization, and poor housing quality.

² Unless otherwise specified, dollar amounts in this paper are gross dollar amounts and therefore subject to taxation if distributed as income.

³ Chart data taken from <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110023201>

⁴ There are other methods used for calculating poverty as well, including Canada's bespoke Market Basket Measure (MBM) method and the Low Income Cutoff measure (LICO), but the LIM is most frequently used and tracks closely with other poverty measurements. This paper uses the LIM for poverty calculation unless otherwise noted.

⁵ For example, two single households are equal to one household containing four people.

Poverty stems primarily from the existence of nonworkers, both in households in which there are workers and nonworkers in households where there are only nonworkers. The reason for this is simple: one person with a full-time job in most Canadian provinces will clear the \$24,183 threshold necessary to be above the poverty line.

About 65% of impoverished non-workers do not even live with a worker⁶. This is a crucial insight for poverty reduction, as these workers have little means of obtaining income beyond transfer programs. In these circumstances, increasing labour income has very limited or no effect on household poverty. They are reliant on welfare benefits.⁷

Most nonworkers are work-limited by their circumstances (such as age, being occupied with school or caregiving, or having a physical or mental disability). It is difficult, impossible, or legally prohibited for them to become workers.

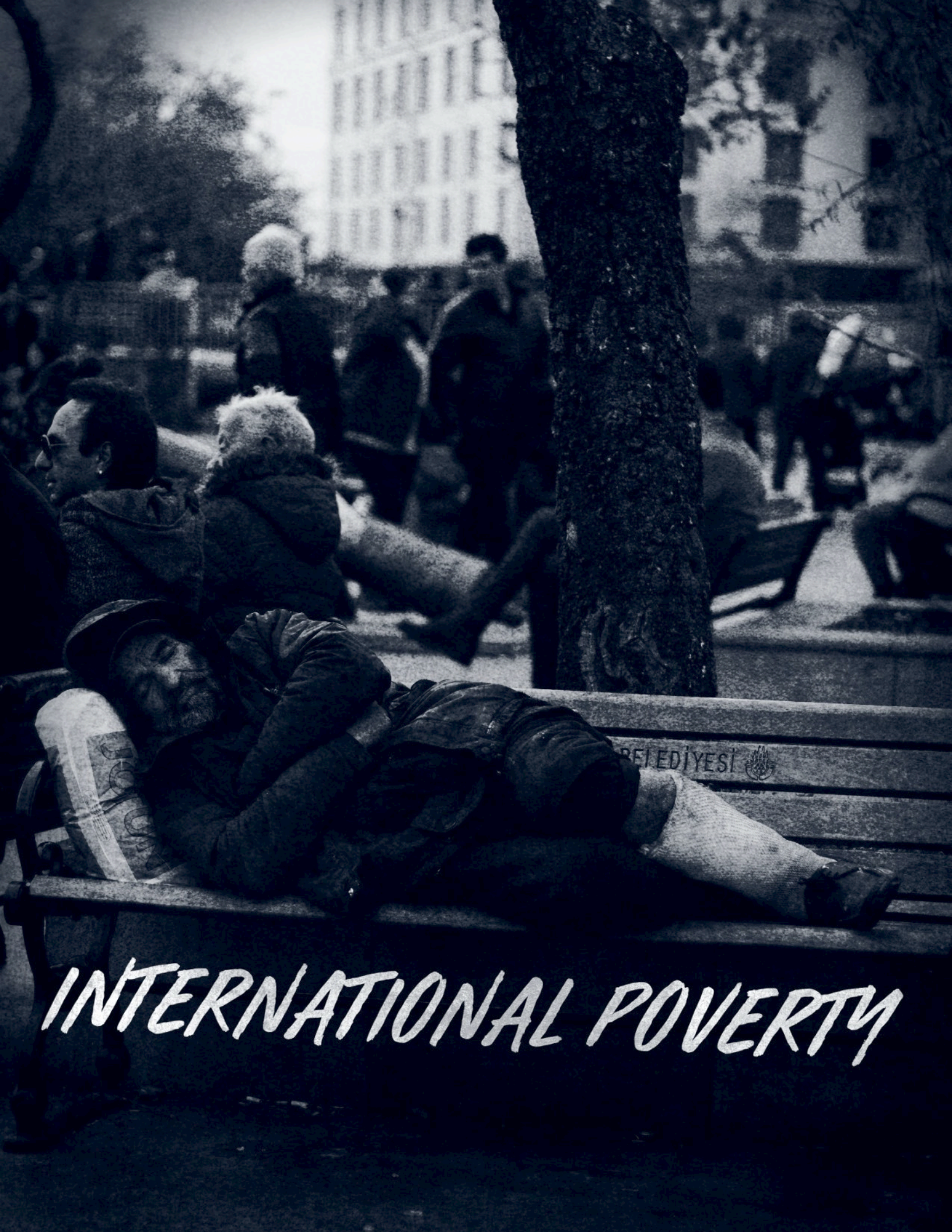
The chief mechanism therefore in the elimination of poverty must be the supplementation of income to nonworkers.

Nonworkers and welfare benefits

<i>Nonworker type</i>	<i>Work-limited?</i>	<i>Applicable welfare benefits</i>
Child	Yes	Child benefits Family benefits
Student	Yes	College subsidy Student stipend Unemployment
Short-term unemployed	No	Unemployment
Long-term unemployed	Sometimes	Unemployment
Caregiver	Yes	Unemployment Long-term care subsidy
Disabled	Yes	Disability benefit
Retired	Yes	Retirement benefit Pension

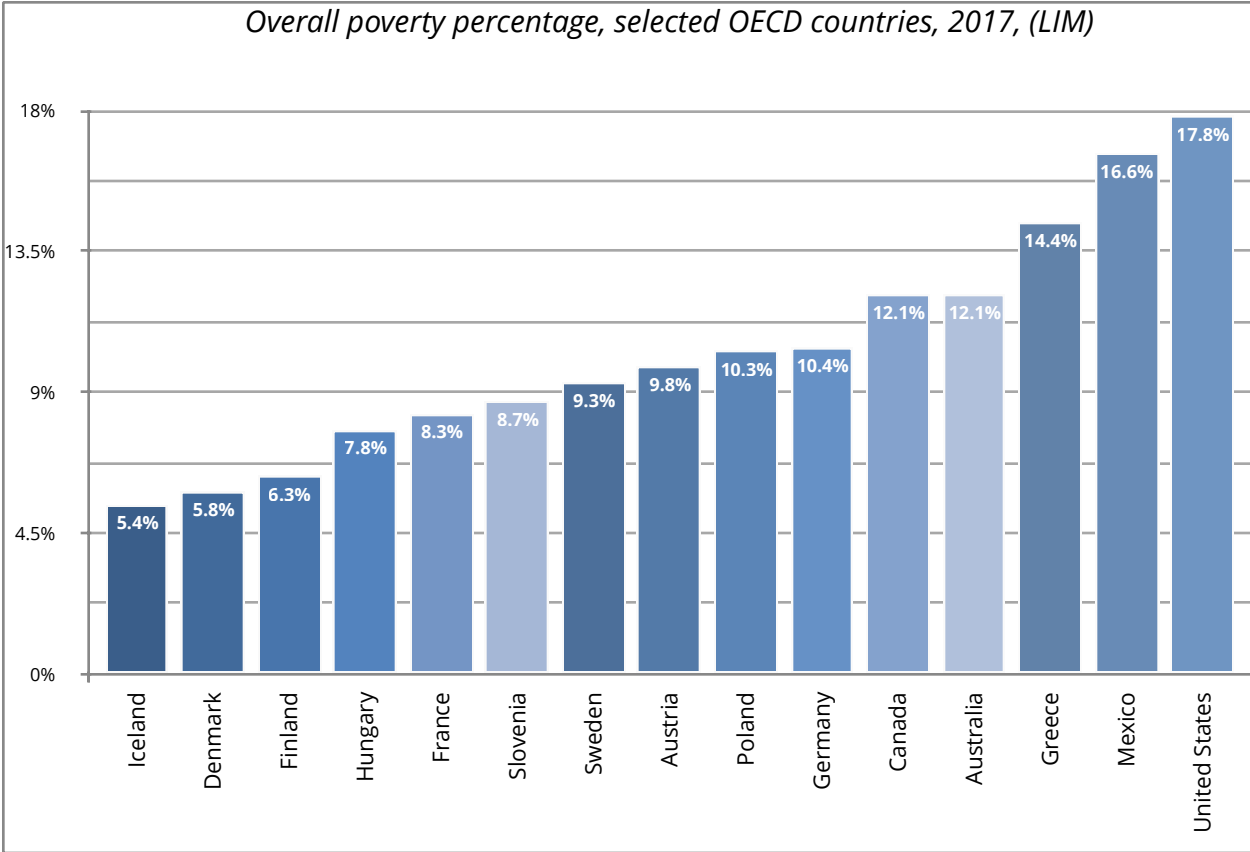
⁶ For the purposes of this paper, “worker” is defined as a person who works more than 910 hours per year.

⁷ This uses the LICO poverty measure. Derived from <https://www.canada.ca/en/employment-social-development/programs/poverty-reduction/background.html#h2.5>



INTERNATIONAL POVERTY

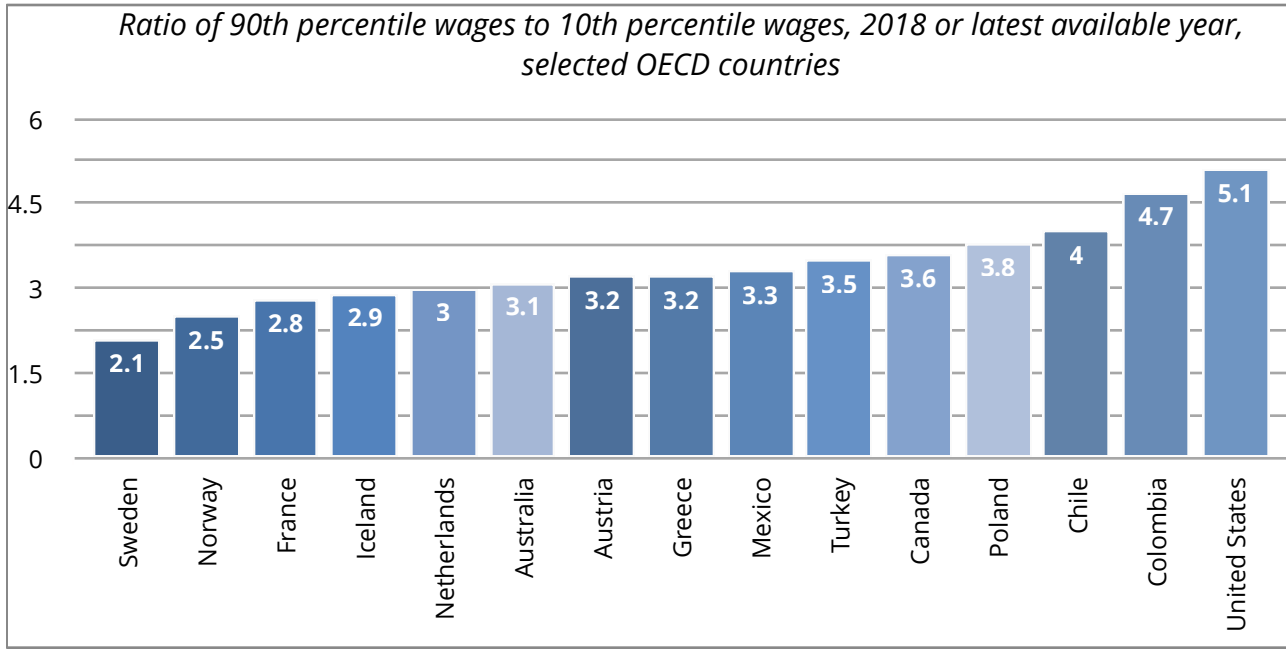
Canada has a relatively poor standing relative to other rich countries in international poverty metrics.



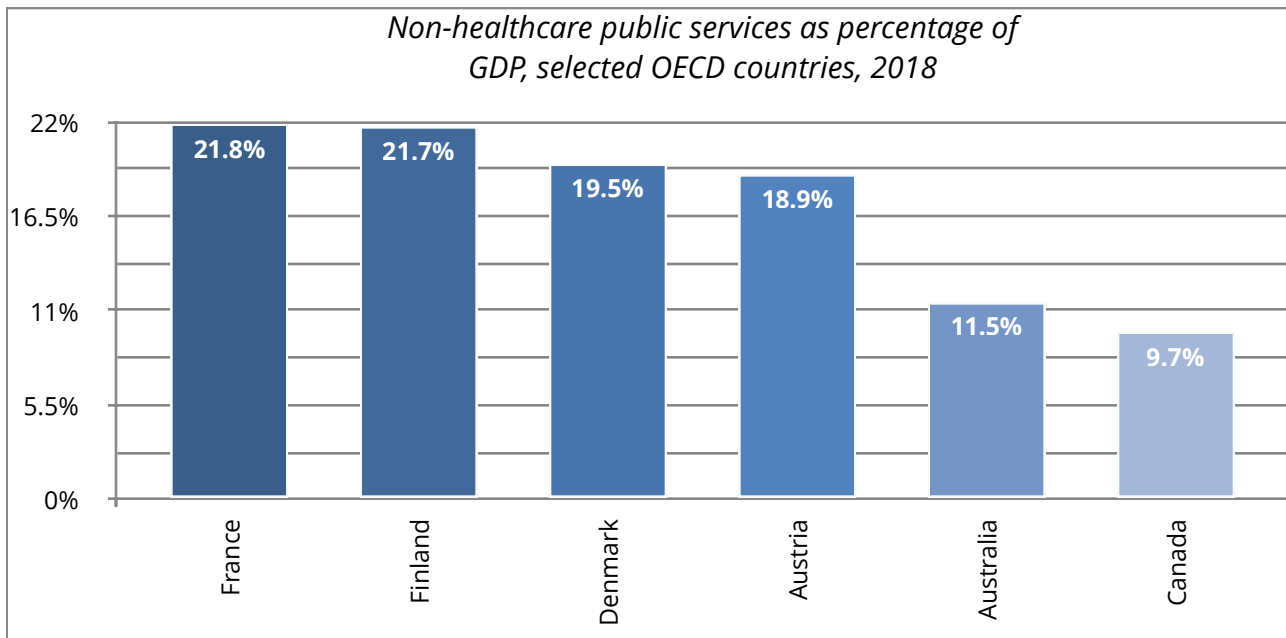
The general approach taken by countries that do a good job of keeping poverty at a low level is to provide generous benefits to each major nonworking group. These benefits allow them to achieve very low poverty.



Wage inequality is also lower in these countries (though as discussed before, increasing pay rates for low paid workers has a limited effect on poverty).



A large part of the reason for the discrepancy in outcomes is the fact that Canada simply spends much less than it should on welfare. Other countries spend twice as much or more.



A study of three countries⁸

In this section, this paper will break down income support policies for each major nonworker group by country, highlighting areas for improvement in the income support policies of the Canadian state by comparing Canada's income support policies to those of two states with much lower poverty - Finland and France.

To simplify this comparison, I have made some assumptions about the benefit recipient, which are contained in footnotes through this section. This is not an exhaustive list of all benefits, just the major benefits available in each nonworker category.

Canada has a partially decentralized welfare system in which the provinces have broadly similar but somewhat different systems under federal regulation for some programs. Where the benefit type is provincially/territorially administered, I have chosen to pick Ontario's system as the default point of comparison, and will note any significant divergences from Ontario's system where they occur.

⁸ I have excluded two nonworker groups from this comparison. The first is uncompensated long-term carers (IE an adult child taking care of their ailing parent). Generally, these individuals receive benefits from a patchwork of programs, including unemployment, disability, and pensions. The second is children, who generally receive reasonable child benefits already in Canada through the Canadian Child Benefit. Reductions in child poverty are driven largely by increases in worker income and nonworker benefits.

Finland and France use the Euro (€ or EUR). For this section, I have translated the Euro benefit figures to Canadian dollars. This was done on December 5, 2020, when the exchange rate was 1€ = \$1.55. After calculation, all dollar figures have been rounded to the nearest whole dollar. All use of the dollar symbol (\$) indicates Canadian dollars (CAD) unless otherwise specified.

All labour income examples are gross income (pre-tax) unless otherwise specified. Income from benefit programs is taxable unless otherwise specified.

Unemployed⁹

<p><i>Finland</i></p>	<ul style="list-style-type: none"> • Unemployment Insurance starts after a waiting period of 5 days after application. • Basic payment of \$51 per working day. This has an infinite duration - it does not end until the individual finds work. • Finns who are members of unemployment funds (mandatory for most of the workforce) receive earnings - related unemployment equivalent to the basic payment plus 45% of the difference between the basic payment and their prior wage. • This has a duration of up to 500 days, though it is subject to a small reduction after 100 days. • A typical worker making \$3000 a month would make \$1912 in initial unemployment (64% income replacement rate). • An unemployed worker with no work history receives the equivalent of \$1020 a month.
<p><i>France</i></p>	<ul style="list-style-type: none"> • Unemployment insurance starts after a waiting period of 7 days after application. • Workers generally receive 57% of prior income, with some adjustments to favour workers making lower wages and a minimum benefit of \$45 per day and a maximum benefit of \$380 per day. • This has a duration of up to 200 days for most workers, after which there is no unemployment benefit. There are small reductions over the 200 day period. • A typical worker making \$3000 a month would make \$2129 in initial unemployment (71% income replacement rate). • An unemployed worker with no work history receives \$0 a month.

⁹ The figures in this section assume the worker with a work history has been terminated.

<i>Canada</i>	<ul style="list-style-type: none">• Canada's unemployment system is federal, so there are no regional variations in implementation. The unemployment insurance program is called Employment Insurance (EI).• Starts after a waiting period of 7 days after application, although payment may be delayed by up to 28 days after application.• Workers receive 55% of prior income, subject to minor adjustments. The maximum benefit is \$115 per day (\$2300 per month). There is no minimum benefit.• This has a duration of 98 days to 315 days, depending on several factors, including duration of prior employment and regional unemployment rate.• A typical worker making \$3000 a month would make \$1650 in unemployment (55% income replacement rate).• An unemployed worker with no work history receives \$0 a month.
<i>Takeaway</i>	<p>Canada has lower income replacement rates, lower unemployment insurance durations, lower maximum benefits, and no minimum benefit (for workers without a prior work history).</p> <p>Our example unemployed worker is making 14% to 22% less than the same unemployed worker in France or Finland. Our unemployed worker without a work history gets \$0, whereas they get \$0 or \$1020 in France or Finland.</p>



Retired¹⁰

<p><i>Finland</i></p>	<ul style="list-style-type: none"> • There are two main pension systems in Finland - a baseline public plan, and a compulsory occupational pension. Finns who have no earnings history typically only receive the baseline, whereas working Finns typically receive some amount of both pension systems, with high earners not earning any amount from the baseline plan. • The baseline public plan provides a flat-rate benefit of up to 20% of average wages. The benefit is reduced as prior earnings increase. • There is a supplementary pension, called the guarantee pension, which increases pensions for low-income pensioners. • The compulsory occupational pension scheme is run by insurance companies, unions, and employment sectors. Under the Employee Pension Act, which covers most compulsory occupational pensions, there is an earnings based pension formula, which typically results in pensioners making between 50 and 80% of prior earnings. • Total pensions for a sample 61 year old male retiring at 65 making \$4000 per month would amount to \$2851 (72% replacement rate).
<p><i>France</i></p>	<ul style="list-style-type: none"> • There are two main pension systems in France - the French state pension and compulsory supplementary pensions. Almost all working French receive both pensions. • There is a third pension, called the solidarity allowance for the elderly, that provides a minimum benefit for elderly and disabled French with limited or no employment history. • The state pension provides up to 50% of prior income, reduced if the worker has less than 43 total years of work history, up to a maximum benefit of \$54,261 per year.

¹⁰ In this section, I have made the following assumptions about the retiree for benefit calculation: single male born in January 1960 planning to retire at 65 (in 4 years) making \$4000 in gross income (or EUR equivalent) expecting wages to increase by 1.5% per year until retirement, with no years spent as a postsecondary student and with 2 years total spent unemployed, with no voluntary retirement pensions, and with any other variables if present set to the category average for male age 61. The other retiree I used is identical except with no earnings history.

<p><i>France</i></p>	<ul style="list-style-type: none"> • The compulsory supplementary pensions are run by insurance companies and unions. They are strictly additive on top of the state pension. There are a wide range of such plans but typically they provide between 20-30% of prior income on top of the state pension. • Total pensions for a sample 61 year old male retiring at 65 making \$4000 per month would amount to around \$2800 to \$3200 per month (70% to 80% replacement rate).
<p><i>Canada</i></p>	<ul style="list-style-type: none"> • The pension system is federal, so there are no regional differences in implementation, except for Quebec's Quebec Pension Plan replacing the Canada Pension Plan in that province (the two programs are similar). • Canada has one main pension system called the Canada Pension Plan (CPP). Almost all working Canadians receive this pension. There are also employer-based pensions, but these are voluntary, not subject to regulated contributions and wage replacement, and not especially common (about 40% of workers are covered by such plans). • Canada has another pension plan for no-to-moderate income workers called the Old Age Security pension. The maximum payout is \$614 per month and decreases based on prior earnings. This can be combined with CPP. • Canada has a supplementary pension to the Old Age Security pension for workers with no-to-moderate incomes called the Guaranteed Income Supplement. The maximum payment amount is \$917 per month. This can be combined with CPP. • The Canada Pension Plan provides 25% of prior income, calculated over the working life of the individual in inflation-adjusted dollars, including periods of unemployment. The maximum payment is \$1176 per month • Total pensions for a sample 61 year old male retiring at 65 making \$4000 per month would amount to around \$2100 per month (53% replacement rate).
<p><i>Takeaway</i></p>	<p>Canada has much lower income replacement rates for earnings related pensions.</p> <p>The income of our example pensioner in Canada is about 40% lower than the income of the example pensioners in France and Finland.</p>

Disabled¹¹

<p><i>Finland</i></p>	<ul style="list-style-type: none"> • There is a disability benefit for adults set at \$114, \$336, and \$653 per month. These fixed levels of income support correspond to increasing levels of disability. • There is a disability pension available for adults with benefit amounts depending on accrued pensions, level of work capacity loss, age, and life expectancy. • Our example 62 year old disabled woman with serious and work-precluding disabilities would receive around \$2320 in disability pension plus \$653 in disability benefits, for a total of around \$2973 in overall income per month (64% replacement rate).
<p><i>France</i></p>	<ul style="list-style-type: none"> • There is a disability pension for adults set according to three distinct increasing levels of disability. • These are subject to caps (\$1594/\$2657/\$4396 respectively, per month). • Our example 62 year old disabled woman would receive around \$3255 in disability pension per month (70% replacement rate).
<p><i>Canada</i></p>	<ul style="list-style-type: none"> • Part of the disability benefit scheme is federal and part is provincial. • The federal part of the disability benefits scheme is the disability-related portion of the Canada Pension Plan. This provides a minimum benefit of \$506 and a maximum benefit of \$1388, depending on prior CPP contributions.

¹¹ For this section, I have made the following assumptions about the disabled person for the purposes of benefit calculation: single woman born in 1958 (62 years old) with serious and work-precluding disability that impacts mobility who has made \$4650 or EUR equivalent per month for several years and has had a relatively stable lifetime income with no assets and no children.

<i>Canada</i>	<ul style="list-style-type: none">• The provincial part of the disability benefits scheme that we will discuss is Ontario's Ontario Disability Support Program. It consists of a basic needs allowance and a shelter allowance. Both of these are rated based on the monthly expenses of a person in the program. The maximum amount available to a single person without dependents is \$1169. Benefits within the program are not means tested, but the program has strict eligibility requirements. Most other provinces have similar programs.• Our example 62 year old disabled woman would receive around \$2270 in overall disability benefits per month (49% replacement rate).
<i>Takeaway</i>	<p>Canada has lower income replacement rates available for the work-limited disabled.</p> <p>Our example disabled person is receiving 24% or 30% less in Canada than in Finland or France.</p>



Students

<i>Finland</i>	<ul style="list-style-type: none">• Early childhood education is subsidized through the state. The state pays around 85% of the cost and parents pay around 15%.• Public education for ages 6 through 18 is free to attend. Around 97% of students are enrolled in public schools.• Universities and trade schools are free to attend. All universities and trade schools are public.• There is a living expenses grant available to students of \$392 per month for a student 18 or older living alone. There are also means tested allowances for purchasing study materials.• There are few scholarships available for domestic students.• There is additional financial assistance available for students who have low parental income.
<i>France</i>	<ul style="list-style-type: none">• Early childhood education is free to attend.• Public education for ages 6 through 18 is free to attend. About 85% of students are enrolled in public schools.• Public universities and trade schools are heavily subsidized. Generally, tuition is between \$310 to \$930.• There are few scholarships available for domestic students.• There is additional financial assistance available for students who have low parental income.
<i>Canada</i>	<ul style="list-style-type: none">• Early childhood education is not free, but is subject to some subsidy through the provinces. Typically, preschool costs between \$500 and \$1500 per month before subsidy.• In Quebec, all preschool is subsidized by the province and fees are below \$500 per month for all parents.

Canada

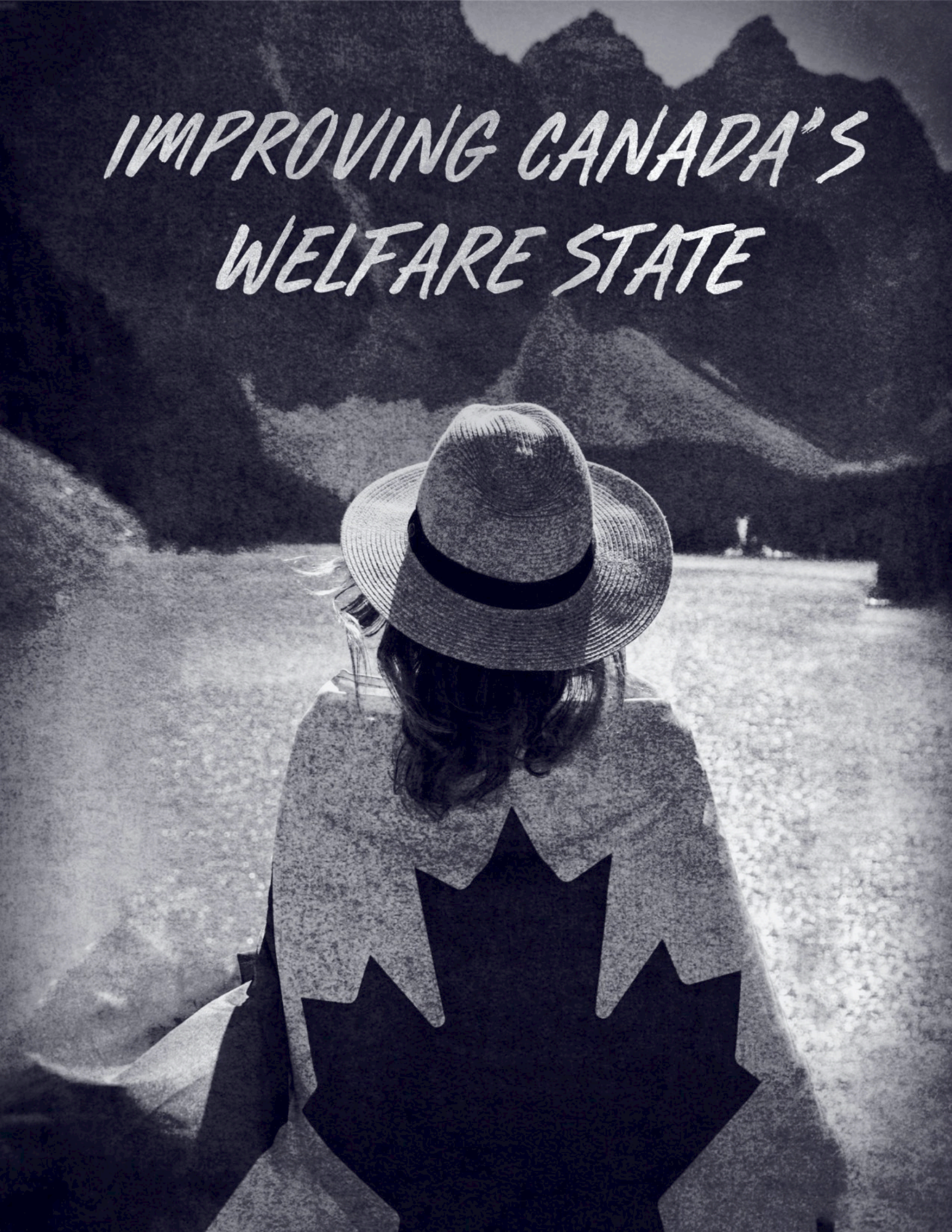
- There is a patchwork of approaches taken by the provinces. Some offer partial subsidies to most parents, while others (like Ontario) offer a mix of partial subsidies and full subsidies to a comparatively lower number of parents.
- Public education for ages 6 to 18 is free to attend. About 95% of students are enrolled in public schools.
- Public universities are heavily subsidized (by a mix of provincial spending, federal spending, and donations) but not free. Students pay about 20% to 30% of the total cost, which averages to about \$6500 per year. There are essentially no private universities.
- Trade schools are subject to some subsidy. There are a mix of public and private trade schools.
- There is additional financial assistance available for students who have low parental income, as well as domestic scholarships available for high-achieving and minority students.
- One notable financial assistance program is the Canada Student Grant, which is available to students with relatively low household income and pays up to \$375 per month.

Takeaway

Canada's education system is relatively expensive at the point of use compared to France and Finland.

Canada has free primary and secondary education, but demands relatively high fees for early childhood education and postsecondary education.

*IMPROVING CANADA'S
WELFARE STATE*



Welfare state expansion is the only reasonable solution to poverty. Alternative methods fail to give a reasonable amount of money to nonworkers and are therefore not viable for serious poverty reduction.

Here are reasonable reforms to Canada's welfare state for each nonworker group. I have added minimum benefits, eliminated barriers to benefit receipt, reoriented regional spending to federal spending, and changed income replacement programs to replace income at a relatively high percentage of prior earnings.

The program changes below are not meant to be dogmatically prescriptive - there are countless ways to stabilize and increase nonworker income. Any welfare reforms that feature high income replacement levels and reasonable minimum benefits are likely to be very good reforms regardless of methodology.¹²

Unemployed

Canada's current unemployment system provides benefits that are unreliable and too low for those with limited prior earnings. I would make the following changes to Canada's federal unemployment insurance program, Employment Insurance (EI):

I would add a minimum benefit equivalent to 20% of the average Canadian wage¹³. This would currently amount to \$10,926 per year, or \$910 per month. Workers would receive this minimum benefit if they had no work history or work history that would receive less than \$910 per month under the standard benefit formula. This would ensure workers with a sporadic work history or who are entering the job market for the first time have some amount of income support.

I would change eligibility such that workers who had no work history or who quit their jobs would be eligible for EI at the minimum benefit after a waiting period of 2 months. Currently, workers without a work history or who quit their jobs (except under duress or harassment) are not eligible for EI.

- EI at the minimum benefit would not be available to current students or to retired or disabled people currently collecting

¹² Pegging benefit programs to average wages rather than the Consumer Price Index (CPI) would be best where possible, as wage growth tends to outpace CPI increases. I feel this level of detail is outside the scope of the paper however for OAS/GIS benefit reformulation.

¹³ \$54,630 in gross income for a full time employee according to the most recent data.

Canada Pension Plan benefits. Postsecondary students and CPP benefit recipients would be able to collect the minimum benefit after a two month waiting period (after their last day of instruction/after their last day of CPP benefit receipt).

I would increase the standard benefit formula to 65% of prior earnings. The current benefit formula is too low for reasonable income replacement.

I would increase the maximum benefit to 100% of the average wage, currently \$54,630 in gross income, or \$4553 per month. The current cap means that upper income workers are poorly served by EI for income replacement purposes. This change would allow workers to continue to receive additional income replacement all the way up to \$84,046 of gross income.¹⁴

I would standardize and expand the benefit duration. Unemployed workers would be eligible for unemployment insurance at 65% of prior income for 250 days. After this period, workers would receive the minimum benefit with an unlimited duration. Canada's current unemployment insurance has an unpredictable and potentially short period of income support and does not provide income support for the long-term unemployed.

I would reduce the requirements for collecting EI. Currently, workers are required to document proof of job search on every day they are collecting benefits. I would reduce the job search requirement to showing that you applied to two jobs each week, or updated your resume or completed other tasks or received training conducive to gaining new employment. I would also eliminate the requirement to accept any suitable offer of employment while unemployed. The role of EI should be to provide income replacement during unemployment, not to coerce workers into accepting undesirable jobs or to starve them out.

¹⁴ Workers who exceed \$84,046 of gross income would receive the maximum benefit (without marginal income replacement above the maximum benefit).

Retired

Canada's current pension system provides benefits that are too low. I would make the following changes to Canada's pension system:

I would eliminate the Quebec Pension Plan and allow Quebec residents to receive the Canada Pension Plan.

I would increase the income replacement rate of the Canada Pension Plan to 60% of prior income. The current income replacement rate (25%) is very low and does not provide sufficient income replacement. I would increase the benefit amounts of the Old Age Security and Guaranteed Income Supplement by 20%.

Disabled

Canada's current disability system pays too little to the work-limited disabled. I would make the following changes to Canada's disability system:

I would increase the benefits available through the Ontario Disability Support Program and other similar provincial disability support programs by 30%.

I would increase the income replacement rate of the disability-related portion of the Canada Pension Plan to 60% of prior income. The current income replacement rate is too low.

I would change the disability-related portion CPP minimum benefit to be equal to 25% of the average wage (currently, this would mean a benefit of \$1138 per month). Disabled people would receive this benefit if the standard benefit formula produced a benefit of less than 25% of the average wage.

Students

Canada's education system is relatively expensive at the point of use. I would make the following changes to Canada's benefit systems for students:

I would make early childhood education free at the point of use. Provinces and territories would set standardized payment rates and completely subsidize preschool for each child.

I would increase the federal subsidy to public universities to make them free at the point of use. I would increase the federal subsidy to public tradeschools to make them free at the point of use and provide per-student subsidies for students at private tradeschools equivalent to the subsidy available to comparable public tradeschools.

I would make the Canada Student Grant available to all students regardless of parental income or assets and change the benefit amount to 10% of the average wage (currently, this would mean a benefit of \$455 per month).

Funding

To fund these changes, I would increase capital taxation, through a mix of increases in capital gains taxes, wealth taxes (including implicit taxes, IE transaction taxes, share dilution, and estate taxes), and elimination of tax-advantaged investment account categories, tax increases designed to fall mostly on wealthy Canadians. There are the 'low-hanging fruit' of tax policy, as most Canadians have relatively few assets.

I would also propose a mix of employer side tax increases (such as increasing CPP contribution amounts) along with income tax increases. These increases would fall more heavily on upper income workers through progressive taxation.

*THE ALTERNATIVES
& WHY THEY FAIL*

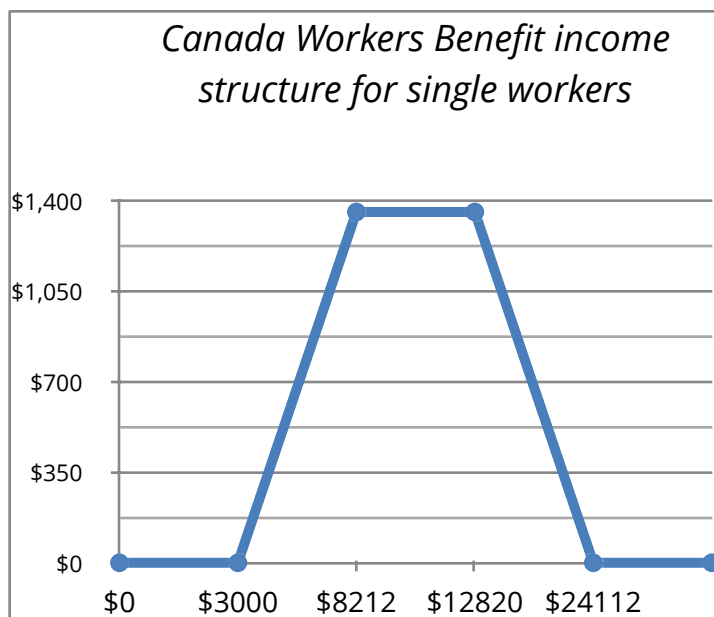


Canada Workers Benefit

The Canada Workers Benefit and other similar refundable tax credits are a way of reducing poverty somewhat by targeting low-income workers. They completely exclude no-income and very low-income individuals and partially exclude many low-income workers.

These programs provide cash benefits only to workers who are close to the poverty line by excluding workers who are well below the poverty line and all nonworkers (by “phasing in” the credit so that workers who earn more get more of the credit, up to a point) and excluding workers who are well above the poverty line (by “phasing out” the credit so that well-off workers who earn more lose more of the credit, up to a point). In between the phase in and phase out levels of annual income, the benefit plateaus at \$1355.

This structure is reflected in the following graph:¹⁵



The problem with these programs as a method of addressing poverty is that they exclude the very poor. They can be a useful part of an overall welfare system, but as they target a very limited group of low-wage, low-hour workers, their applicability is limited.

¹⁵ Derived from <https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/federal-government-budgets/budget-2018-equality-growth-strong-middle-class/canada-workers-benefit.html>. X axis not to scale.

Charity

Charity has had a very limited effect on poverty in rich countries. Even assuming an ideal distribution of charity resources, the charitable sector is not large enough to have a substantial antipoverty effect.

For example, the charitable and nonprofit sector in Canada represents around 2.4% of GDP¹⁶ if you exclude hospitals and universities. Some charities within that 2.4% of GDP focus on cash and in-kind benefits (like food and shelter) provided to the domestic population, but the amount is small in terms of antipoverty effect. For context, in 2018 Canada spent 9.7% of GDP on non-healthcare public welfare.

Charity is also vulnerable to countercyclical spending issues - when unemployment is low, charitable spending is likely to be higher, and vice versa. In addition, charitable overhead tends to be in the low to mid double digit range, whereas welfare overhead is typically around one percent - welfare is usually more than an order of magnitude more efficient.

For these reasons, charitable giving does not currently supply a substantial antipoverty effect and charitable expansion is inappropriate to seriously address poverty.

General employment expansion

Employment expansion is usually going to have a limited effect on poverty, as the substantial majority of those in poverty at any given time are nonworkers.

Nonworkers often live with workers in the same household, but this is not always true. Furthermore, workers and nonworkers exist within households in different relative quantities - you could imagine a four person household consisting of any combination of nonworkers and workers, with much worse outcomes for poverty as nonworkers increase.

The most efficient way to address this is by providing welfare benefits to nonworkers. Increasing worker wages helps to a degree but does not address the worker-nonworker household mismatch problem.

¹⁶ <http://sectorsource.ca/research-and-impact/sector-impact>

Job Guarantee

The Job Guarantee (JG) is a proposal that seeks to change one of the fundamental aspects of labour market economics. Some proportion of workers in an economy are unemployed at any given time and these workers typically suffer materially and in career terms until they find new employment.

However, if the government was to seek to reduce unemployment to 0% or as close to it as possible through monetary and fiscal policy, there would be no unemployed individuals for employers to use to stifle worker power in wage-setting. Workers would demand higher and higher wages, leading to higher consumer prices, leading to higher wage demands, and so on, leading to very high levels of price inflation.

The JG originates as an idea to deal with this aspect of the labour market differently. JG advocates would like to achieve full employment, but with a relatively loose labour market that has some proportion of workers “in reserve” by working a low-wage workfare (work to receive welfare benefits) scheme run by the government as an alternative to unemployment (for those workers). Through a JG scheme, advocates say, you could achieve full employment without high inflation.

The first obvious objection from a poverty reduction perspective is that because most nonworkers are work-limited because of life circumstances or ability, the JG will not have a very substantial antipoverty benefit (see employment expansion section above).

However, the JG differs from other employment expansion programs in that it aims to hire as many unemployed people as possible - conceivably, 6% or more of the working population could be enrolled in the JG scheme at a time. Because JG proposes a large employment expansion relative to traditional employment expansion proposals, it is worth analyzing in more depth.

JG proposals differ in terms of their implementations, but most have the same basic elements:

<i>Program aspect</i>	<i>Reasoning</i>	<i>Implication</i>
(1) Zero or very little employee selectivity (workers are not turned down)	This is part of the namesake of the program and is insisted upon by advocates.	All workers (perhaps passing some minimum threshold of able-bodiedness) must be admitted into the program.
(2) Fixed wage at or below the minimum wage in the rest of the workforce	Worker wages must be fixed in order for the workers in the program to be easily hired by traditional employers and avoid a wage-price spiral. Worker wages in the JG can be set below the minimum wage, but effectively not above it, as the JG wage then effectively becomes the minimum wage.	Worker wages for workers in the JG are going to be at the bottom of the labour market.
(3) Work that is non-duplicative of existing public and private sector work	If JG workers duplicate existing work they are competing against existing workers and unduly undercutting wage demands of those workers. In addition, if provided to the private sector these are essentially free workers for private businesses which is undesirable.	JG workers have to be employed in the public sector or in nonprofits and have to be doing tasks that are currently unfilled. These tasks have to be new tasks that have zero or very little participation from the traditional labour sector and are mostly or entirely low-value.
(4) Work that is capable of being performed by low skilled or unskilled workers	JG programs are open to both skilled and unskilled workers.	JG programs are going to involve mostly or entirely unskilled work.

(5) Work that is capable of going unfilled	JG work is going to increase and decrease countercyclically with respect to unemployment and therefore most or all JG work must be unnecessary.	JG work generally is relatively unimportant to the functioning of society.
(6) Work that can be performed by workers that the employer has no abilities to retain	The JG program cannot bargain up wages to retain employees.	JG workers are going to cycle in and out of the program frequently, preventing the development and retention of worker skill and limiting the kind of tasks the workers can realistically perform. This places a constraint on the danger level of the work as well.

Some of the reasoning contained above is original but most of it is present in the writings of Bill Mitchell, Randy Wray, and Stephanie Kelton, who are the highest profile JG advocates. The first two items in the above chart are explicit aspects of common JG programs and the other items logically follow from those two items and the purpose of the program.

Synthesizing the above table, JG proposals generally provide low-skill low-pay jobs that are easily available to unemployed workers that consist of low-importance tasks that could otherwise go without doing. Some tasks appropriate for JG might be picking up trash, raking leaves in parks, performing in community theatre, or blogging. In other words, not particularly useful jobs that typically go uncompensated or unfulfilled in the economy at present.

There are conservative approaches to JG and JG-like programs that use program workers primarily to replace normally structured existing low-wage jobs, which allows you to ignore (3) and therefore are less impacted by (5) and (6), making the JG a more viable program on its own terms. For labour policy reasons this is very unappealing however.

Some advocates claim that more sophisticated or socially useful work tasks will be possible, but these work tasks conflict with one or more elements of a JG implementation.

Work tasks and JG interaction

<i>Work</i>	<i>JG conflict</i>	<i>Implication</i>
Construction	Too dangerous for transient workforce with limited time for training (6), duplicative of existing work (3), important to perform and not capable of going unfilled (5), some tasks require skill (4)	Not suitable for JG
Childcare	Requires skill (4), requires high retention of employees for child psychological stability reasons (6), needs to be provided at all times and doesn't oscillate countercyclically relative to unemployment (5), duplicative of existing work (3)	Not suitable for JG
Cutting hair	Requires skill (4), duplicative of existing work (3), needs to be provided at all times (5)	Not suitable for JG
Personal blogging	No conflict	Suitable for JG

Other advocates would like the JG implemented with other public employment programs that have selective employment and can be paid at levels above the minimum wage. This is fine, but is essentially the implementation of a JG program underneath other non-JG programs and they should be evaluated separately.

Other advocates have claimed that they would like to see JG workers integrated with non-JG workers at the same workplace. This way, you could have skilled workers paid above the JG wage integrated with JG workers to perform work that would typically be beyond the scope of JG work. The problem with this implementation is the transience of JG workers makes this kind of implementation administratively difficult and the nature of the work is such that JG workers would almost certainly be replacing workers who would otherwise be hired normally, serving as a workforce that would undercut wage demands of those normally hired workers.

Real-life implementations of JG-like programs have either run up against some of the constraints the JG imposes, essentially making the programs provide meaningless work for low pay, or power past the limitations and undercut other workers with a low-skilled low-paid workforce that is in competition with them.

- One example of a prior program is Australia's Work For The Dole (WFTD) program, which requires able bodied long term welfare recipients to perform part time work for their benefits. The work is generally not meaningful or socially useful and consists of simple tasks, like picking up litter.
- One example of a latter program is New York City's implementation of workfare. New York City replaced MTA transit workers with welfare recipients working for their benefits during the late 1990s. These workfare workers were doing socially useful tasks but they replaced existing unionized workers and suppressed the wage demands of the unionized workers they didn't replace.

Neither example seems especially compelling, but these are the most likely outcomes of a JG program as described by advocates.

One JG implementation that seems like it would have few negative effects is to set up a JG program that pays very little, or pays the same amount as unemployment insurance and replaces unemployment insurance for the workers who join the JG program. This JG implementation would essentially see the JG become a non-coercive volunteer program for dealing with issues of minor social importance (like messy public parks). Advocates typically do not like this implementation, but it seems to solve most of the fundamental issues related to JG by making the payment unrelated to the tasks.

The best way to fix the JG program is to eliminate the essential requirements of the program I listed at the outset of this section - (1) zero or very little employee selectivity and (2) fixed wage at or below the minimum wage. Eliminating these two requirements would turn it into conventional public employment, with employer selectivity and the ability to pay more than minimum wage. These two small changes turn the JG into a general public employment program, which can of course be very useful and can be used to complete a large variety of work.

The Canadian discourse on JG seems limited relative to the discourse in other western countries. No major Canadian political party or advocacy group has advanced a JG, although Canada has had workfare programs in the past (most notably in Ontario).

Nevertheless, the JG has been advocated recently (at least in name) by a small advocacy group called Courage¹⁷, and a “Youth Jobs Guarantee” has been floated by the left-leaning Broadbent Institute¹⁸.

- The Courage JG consists of a one-page briefing note that proposes the creation of a new federal agency that would allow “everyone who wants a job [to] get one”. The JG proposed is essentially a mix of JG and normal public sector employment that consists of jobs that are too high-skill and high-credential for normal JG employment (like “staffing public care facilities” and using car plants to produce “personal protective equipment”). The JG portion of this proposal - the low-selectivity employment portion - is unworkable as described.
- The Broadbent “Youth Job Guarantee” proposal contains no JG. It proposes creating “three-month full-time co-op positions, paid internship or summer job placements” paying \$15/hour, limited to people under the age of 25. These positions would have selective hiring practices and the funding supplied would be limited. The aim of the program is to initially reduce the youth unemployment rate by about 1.5%. It also proposes adding apprenticeship and training programs for people under 25. Ultimately, this proposal has no JG component and instead consists of active labour market policies designed to encourage career attachment for people aged 18-25.

One final new consideration with JG is the new wave of coronavirus disease that swept the world in 2020. Coronavirus transmissions in workplaces are very common, and a JG would involve the unnecessary exposure of many

¹⁷ <http://www.couragecoalition.ca/a-jobs-guarantee-the-path-to-a-green-recovery/>

¹⁸ https://d3n8a8pro7vhmx.cloudfront.net/broadbent/pages/22/attachments/original/1429994807/Youth_Job_Guarantee.pdf?1429994807

workers, their families, and friends to a dangerous virus that considerable public effort has been spent containing.

At a time when so many governments around the world are suspending “non-essential” work and workplaces, a workfare scheme that proposes employing a class of workers doing simple low-value tasks all day while exposed to the public and to coworkers seems inappropriate.

The Job Guarantee should not be part of a scheme to address Canadian poverty.



WHY NOT
UBI?



The Universal Basic Income approach to poverty reduction has become very popular. This paper is not opposed to UBI, but UBI should be understood as what it is: a kind of unemployment benefit that needs to be implemented very carefully in order to make sense.

UBI advocates often say that their scheme provides freedom from the employer by providing income during periods of non-employment. This is also true of unemployment insurance. The largest difference between UBI and unemployment insurance is that unemployment insurance can be pegged to prior income and can effectively serve as an income replacement program for workers.

UBI implementations take the form of a universal cash payment that is not pegged to prior income, which means that UBI is only going to serve as an effective income replacement program for workers employed for very little or no pay (perhaps only interns and volunteers) as all workers are already receiving UBI. The obvious implication is that UBI should not be used to eliminate unemployment insurance.

The other obvious difference between UBI and unemployment insurance is that UBI is provided to both workers and non-workers, whereas unemployment insurance is provided only to non-workers. This is understood by UBI advocates as a way for workers to more easily change their employment status, as they can depend on their UBI during periods of non-employment. This rationale however also applies to unemployment insurance.

The largest conceptual benefit to UBI is providing income support to those who are employed in informal/unstructured work, such as freelancers and “gig economy” workers¹⁹. A secondary benefit is providing income support to those who do not apply for benefits or who are in between work and employment insurance.

¹⁹ It is worth pointing out however that current unemployment insurance allows a worker to work part-time and still receive some benefits (benefits are reduced by 50 cents for each dollar earned). The changes to unemployment insurance I propose would make unemployment insurance a very effective supplement to part-time or gig-based work, as there is a minimum benefit with unlimited duration to use as a base for income, with increased work hours meaning more earnings overall but with lower benefits.

When it comes to UBI approaches, there are a number of different plausible ways to fund such a policy:

- Imposing taxes (typically sales taxes or income taxes and excluding capital taxes).²⁰
- Using capital dividends (the state could own a large amount of capital stock and distribute the dividend from that capital stock through a UBI, or alternatively impose large capital taxes such as wealth/estate taxes and financial transaction taxes and use those taxes to fund the UBI).

The funding model is critical when it comes to evaluating a UBI proposal. A UBI that is funded through cutting existing programs is much less appealing than a UBI funded through capital taxes, for instance.

Furthermore, there are questions related to the interactions of the UBI proposal with the existing welfare state:

- The UBI proposal could be additive, and not come alongside any cuts (or very few cuts) to the welfare state.
- The UBI proposal could be subtractive, and include large cuts or reductions to existing welfare policies (with the idea that the UBI would replace the income received through these policies).

Here is a table that categorizes various UBI proposals according to the above parameters:

<i>Funding type</i>	<i>Interaction with existing welfare state</i>	<i>Merit for welfare policy</i>
Imposing taxes	Subtractive	Low
Imposing taxes	Additive	Medium-High
Using capital dividends	Subtractive	Low-Medium
Using capital dividends	Additive	Very High

²⁰ There are concerns related to the regressivity of the tax used to fund the UBI. A progressive income tax is going to create a more appealing model for UBI funding than a flat sales tax, for example, as it will fall disproportionately on upper income earners.

Below is a more detailed summary of the above approaches to UBI and their relative merits:

- *Imposing taxes/subtractive:* The problem with this kind of proposal is that people with different needs should receive different levels of income support, and homogenizing the income received is counterproductive. A disabled person in their mid 70s who needs a live-in caretaker would receive the same amount as a college student in their 20s with few needs and subsidized housing.

It also fails to consider prior earnings - someone who has a \$60,000 a year job who is forced onto \$20,000 a year UBI (from \$80,000/year total to \$20,000) is going to have a very sudden change in circumstances relative to someone who has a \$20,000 a year job who is forced onto a \$20,000 UBI (from \$40,000/year total to \$20,000). UBI in this case would essentially function like the Australian Jobseeker Payment, which is essentially only useful for low-income workers.

Such a scheme could leave many or most welfare recipients worse off. Even a UBI of \$20,000 per year would provide a lower benefit level than most retired people currently receive from public pensions (if the UBI replaced the pension system).

- *Imposing taxes/additive:* This would see UBI integrated into an existing welfare scheme would be to have it sit underneath the existing welfare state as a kind of additive baseline benefit. This is a promising model of UBI integration that preserves existing programs. However, in this model the UBI would essentially duplicate all normal income support programs (given that all nonworkers should receive some additional income support from the state) to some degree, though this is not much of a concern as long as the administration of the program was effective.

This seems like the most appealing UBI scheme that resembles a traditional UBI.

- *Using capital dividends/additive:*²¹ The UBI model that seems most appealing would be a UBI funded by capital dividends that operates independent of the existing welfare state. This would be a similar model to the Alaska Permanent Fund, which is a dividend-paying fund that pays out an average of around \$1600 USD (\$2094 CAD) per resident per year.

²¹ For political reasons, the *using capital dividends/subtractive* combination is not contemplated by any advocates I can find, although I can certainly imagine a capital dividends funded system being used as a rationale to cut the other parts of the welfare state over time.

This is a proposal that essentially demands the socialization of capital stock or capital dividends (or the imposition of large taxes on capital) in order to fund a universal cash dividend. The upside of course is that the overwhelming majority of wealth in Canada is owned by the top 20% of households, so socializing capital stock is heavily redistributive to people not in the upper classes.

The downside from the perspective of a UBI advocate is that the income is somewhat unpredictable and prone to increases or decreases according to the performance of the capital stock owned by the fund (although the government could choose to smooth out variations in the income if they wanted to). In addition, you would need to capture a large amount of societal capital dividends to start paying out a reasonably large dividend in line with typical UBI proposals.

The UBI is not a bad solution *per se* to the problem of poverty and income replacement, but it needs to be handled and considered carefully for it to make sense, both with respect to its funding model and with respect to its interactions with the welfare state. The UBI should be additive, with minimal or no cuts to existing programs, and should be funded by capital dividends to the extent possible.

As a political matter, policymakers need to be vigilant in ensuring the UBI as implemented does not end up as a means to slash the existing welfare state. Many UBI proposals, even from liberal or left wing groups, contemplate reducing existing welfare programs in order to fund the UBI proposal. Andrew Yang's \$12,000 USD per year UBI (\$15,700 CAD) was funded in part via welfare cuts for example (in addition to a somewhat regressive sales tax), and the Finnish basic income trial forced participants to forgo unemployment benefits.²²

In a sense, the welfare state can form a kind of basic income through programs available to non-workers. All workers receive wage income and (ideally) all non-workers receive transfer income, but with different levels of income support corresponding to different situations and needs.

²² UBI advocates will often simultaneously extol the merits of such proposals while insisting they would not support UBI programs that included welfare cuts or used regressive funding models. There is a strain of interest in UBI for reasons that run counter to anti-poverty policy and egalitarian policy more generally.

Conclusion

The welfare state is the best way to address poverty, which is a phenomenon driven primarily by the existence of nonworkers. The welfare state allows for the easy distribution of incomes to nonworkers. Alternative methods fail to give a reasonable amount of money to nonworkers and are therefore not viable for serious poverty reduction.

Canada should increase welfare spending. In order to do this, it should raise taxes on workers and impose taxes on capital. In doing so, Canada would essentially copy the fundamental elements of welfare state systems throughout western Europe and Scandinavia.

The outcome of these policies would be a large reduction in poverty.

This paper was written, researched, and designed by Oliver Mackenzie.



Further reading

Would a Jobs Guarantee Guarantee Jobs? An Analysis of the Employer of Last Resort Proposal, Hugh Sturgess

<https://ses.library.usyd.edu.au/bitstream/handle/2123/16650/>

[Hugh%20Sturgess%20Honours%20Thesis.pdf;jsessionid=FB2D5AE10525A385848E94736BEDD283?sequence=2](https://ses.library.usyd.edu.au/bitstream/handle/2123/16650/Hugh%20Sturgess%20Honours%20Thesis.pdf;jsessionid=FB2D5AE10525A385848E94736BEDD283?sequence=2)

A Consensus Strategy for a Universal Job Guarantee Program, Randall Wray

<http://www.levyinstitute.org/publications/a-consensus-strategy-for-a-universal-job-guarantee-program>

The Welfare State Should Be More Than Just A Safety Net, Matt Bruenig

<https://www.peoplespolicyproject.org/2017/08/05/against-the-safety-net/>

The Nordic Welfare Model, Max Foley-Keene

<https://www.commonwealmagazine.org/equality-isnt-cheap>

Full Employment and Welfare, Matt Bruenig

<http://mattbruenig.com/2015/10/17/full-employment-and-welfare/>