

How a Guaranteed Annual Income Can Dramatically Reduce the Need for Food Banks and Other Food Charity

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PROOF
FOOD INSECURITY
POLICY RESEARCH

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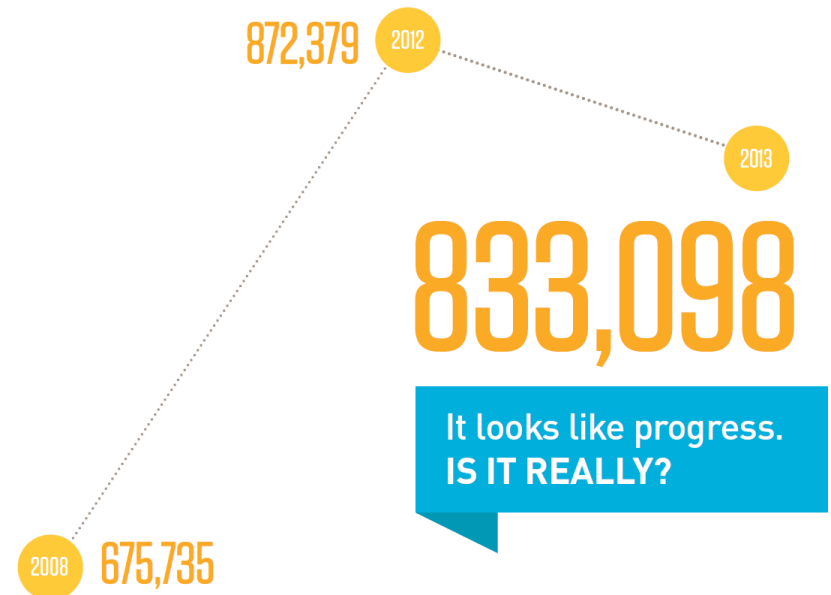
<http://www.foodbankscanada.ca/Learn-About-Hunger/About-Hunger-in-Canada.aspx>

<http://proof.utoronto.ca/resources/proof-annual-reports/annual-report-2014/#infographic>

We rely on social “disaster insurance”: Food banks and other charitable responses to hunger...

- Food banks for infrequent and hopefully non-recurring needs
 - Reliance is non-decreasing despite boom economies with strong labour markets
- As demand for them has grown, we have scaled up the size of the operations and aimed at making them as efficient as possible
 - Now we want policies to lower food prices and increase food donations from industry

severe, for as long a period, as it is now. Food banks have been helping more than 700,000 people each and every month for the better part of the past 15 years. At the root of the need is low income, whether in the short or long term.



Food bank visits in Canada, March 2008, 2012 and 2013
(Source: Food Banks Canada, Hunger Count 2013)

From hunger as a condition to treat to an outcome to prevent

- treatment of symptom with temporary “relief” cannot reduce the levels of need!
 - No matter how efficient relief systems become
 - We have 300 years of experience showing this
- Policy interventions aimed at addressing the cause of the problem can

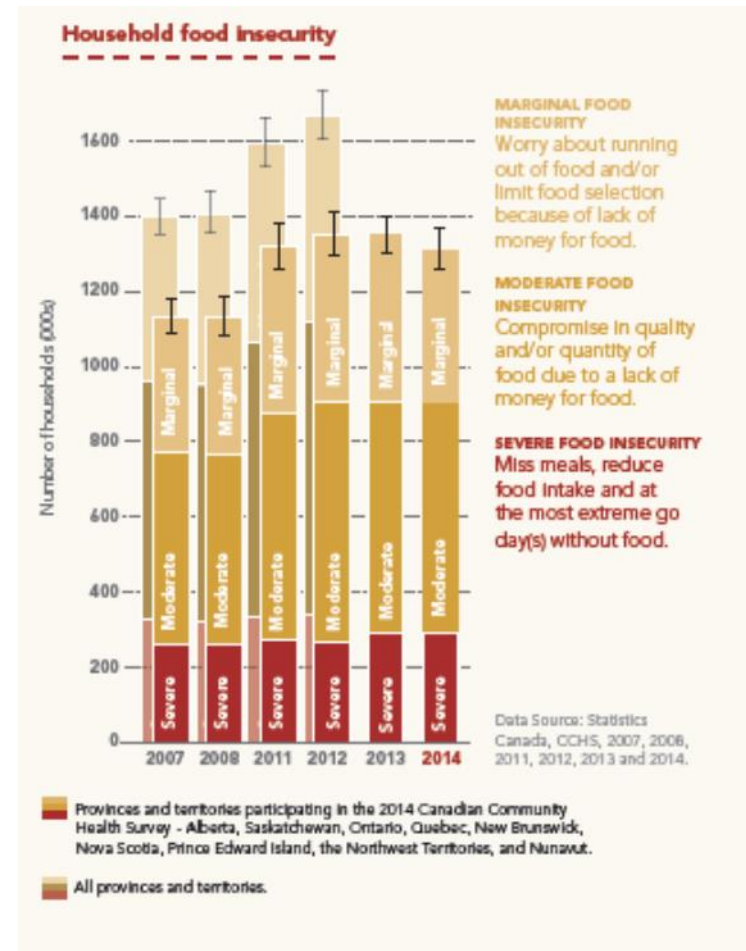


Food Banks Canada, Hunger Count 2013

What is a policy target we can prevent?

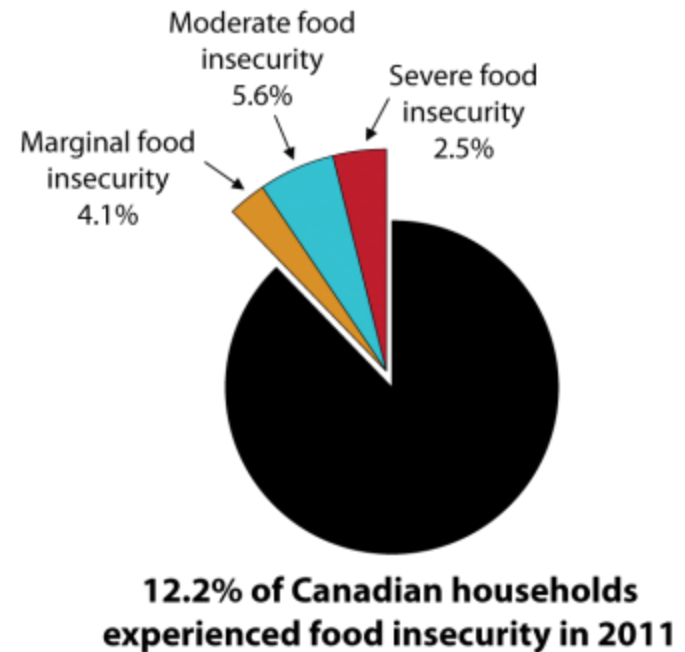
Food Insecurity

- Inadequate or insecure access to adequate food due to financial constraints
 - In the past 12 months:
 - Concerns about running out of food, inability to afford a balanced diet, going hungry, missing meals, not eating for a day due lack of food and money



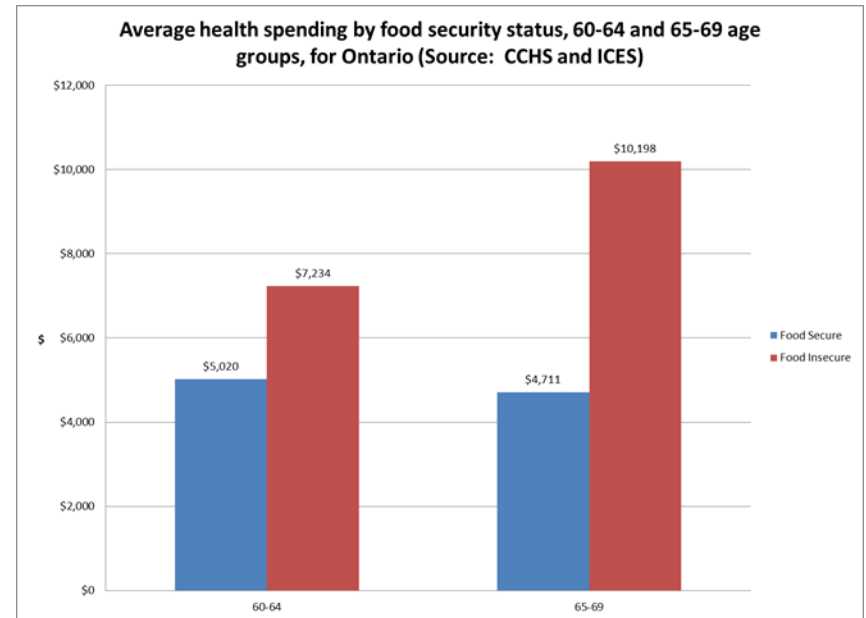
food bank statistics provide underestimates of the prevalence of food insecurity in Canada

- less than one-quarter of food- insecure households make use of food banks
 - (<http://nutritionalsciences.lamp.utoronto.ca/food-insecurity/>)



Food insecurity is a serious public health problem

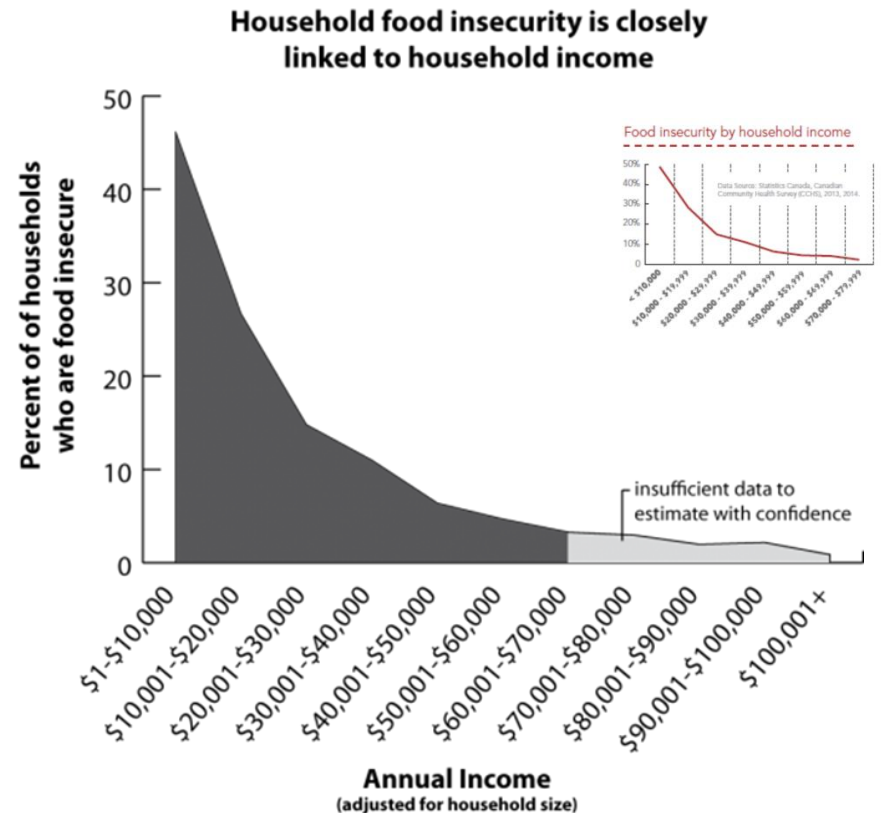
- health and well-being is associated with household food insecurity status
 - poorer physical and mental health and higher rates of numerous chronic conditions, including depression, diabetes, and heart disease



Hunger is an insurance problem:

“not all the poor are hungry” but all poor face a higher risk of being hungry

- The lower the household income, the higher the risk of food insecurity.
- The source of income is also important.
 - Households that receive social assistance have a much higher risk of food insecurity.



Source: 2011 CCHS,
<http://nutritionalsciences.lamp.utoronto.ca/food-insecurity/>

For most of us, our consumption is not determined solely by our immediate income: we are “insured” against budget shocks

- Permanent Income

- Amortizes our lifetime stream of earnings to be generated from our human capital in the labour market
- Facilitated by asset accumulation and financial instruments
 - “access to credit”
 - Earnings insurance for disability, loss of life etc...
- We “smooth” our consumption level over our lifecycle
 - Correlation of current income and consumption can be low

For lower income persons

- Consumption is closer to perfectly correlated with current income
 - Limited or no ability to smooth consumption
 - Human capital too low to generate sufficient earnings to generate surplus above immediate needs
 - No access to financial instruments or credit markets to borrow against future earnings
- If income falls, consumption falls

Food insecurity arises (at least in part) due to a prominent market failure affecting low income households

- consumption insurance is not available, or at least affordable, for lower income households
 - Low income households cannot “smooth” consumption due to a lack of access to financial instruments, or at least reasonable priced financial instruments
- Government can improve things by taking on the responsibility for insuring consumption
 - “Guaranteed Annual Income” provides an income floor



Food Banks Canada, Hunger Count 2013

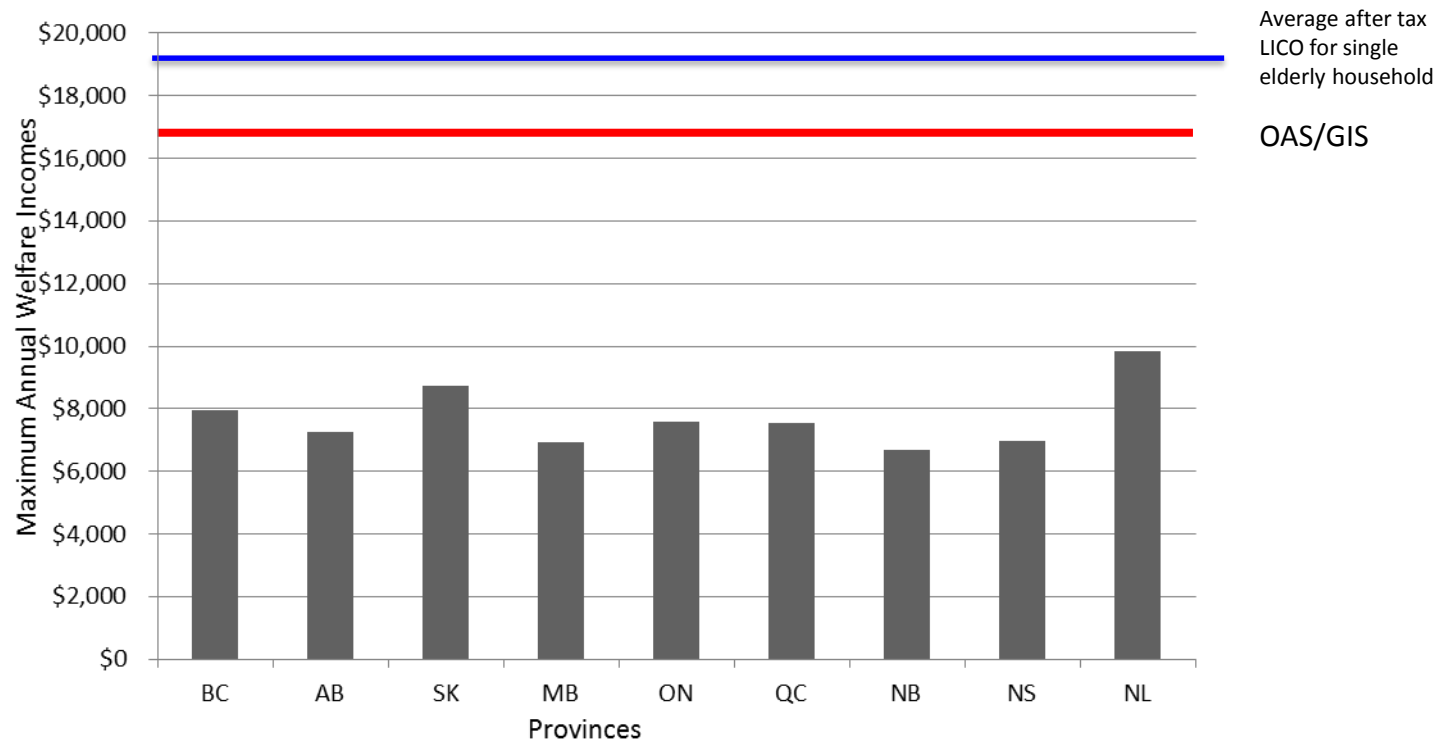
We even know how to mitigate the symptoms of poverty: The Income Floor for Seniors through OAS and GIS

- Senator Hugh Segal (2012) asks:
 - Why haven't Canadians taken the lesson from the success of the Guaranteed Income Supplement for reducing poverty rates of older Canadian, an automatic tax-based top-up for income, and apply it more broadly?
 - Poverty rates for Canadians 65 and over are around 6%
 - Amongst lowest in OECD and down from 28% in 1974
 - Poverty rates for adults under 65 persist at around 12%
- For seniors we use public pensions to address causes of poverty, for Canadians younger than 65 we spend billions on the symptoms of poverty
 - continue to rely on a patchwork of programs and approaches for addressing poverty through provincial social assistance and various training programs and employment supports intended to encourage more Canadians to earn more through the labour market, community programs and charity

Canadians 65 and over have a GAI which includes a Basic Income component (OAS)

- Through OAS, CPP and GIS they have an income floor of around \$14,700 per year
 - OAS is a demogrant and basically Basic Income of around \$6000 per year
 - GIS is an income tested supplement guaranteeing \$14,700 per year
 - It's indexed by the CPI so it's purchasing power is maintained
- None of the employment income risks from job loss , workplace accident or illness
- Compared to social assistance
 - Higher cash benefit paid
 - Greater uniformity in benefits across provinces
 - Indexed by the CPI

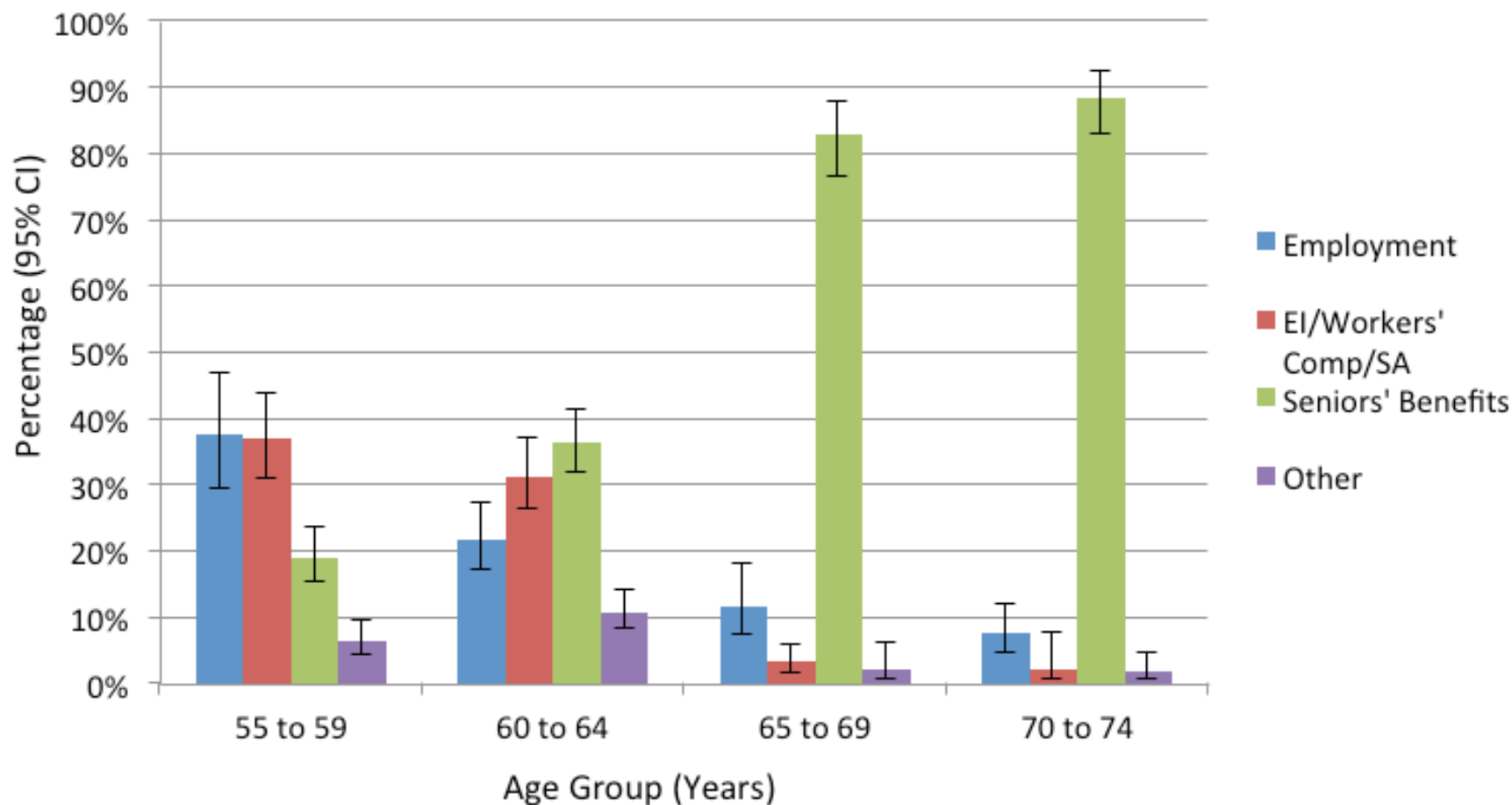
Maximum Annual Welfare Incomes (Single, Employable Person) by Province for 2011 and Minimum Annual OAS/GIS Income



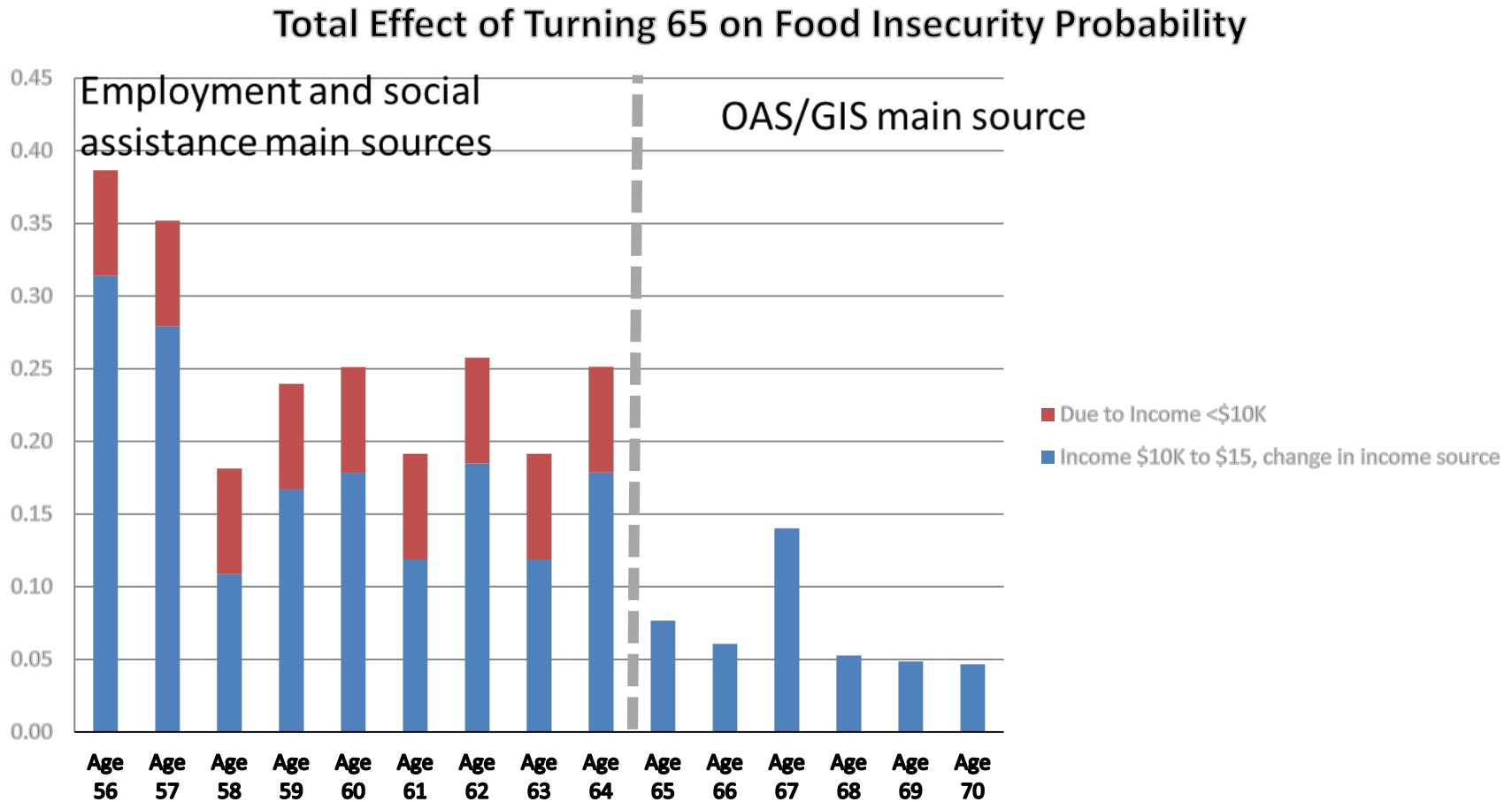
Compare Food Insecurity Outcomes of low income Canadians aged 55-64 and 65-74

- The older groups are the GAI “treatment”
- Younger groups are the non-GAI “control”
 - Used CCHS 5.1 2009-2010 Microdata in Calgary RDC
 - Sample of respondents who:
 - A) Have household income \$20,000 or less and B) have personal income \$20,000 or less
 - Are not married
 - » (so personal income likely the same as household income)
 - All statistics are population weighted
- (SPP paper used CCHS 5.1 public use data; Preventive Medicine Paper used CCHS 4.1 public use data)

Main Personal Income Source for Low-Income Unattached Respondents by Age Group (Weighted), CCHS 5.1 (Public Use, 2009/2010)



What happens to the lowest income group when they turn 65? 20% prevalence of FI falls to 5%

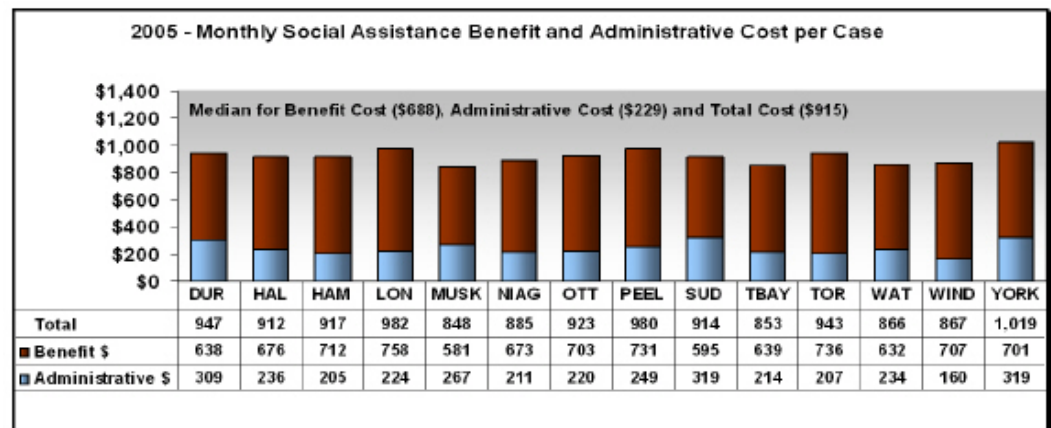


Policy implications

- Least speculative, most grounded in research
 - Stephen Harper was raising entitlement age for OAS/GIS to 67
 - Preventive Medicine (2013) paper
 - Will increase numbers on provincial SA and length of time SA collected
 - More FI persons for longer spells of their lives
 - Policy recommendation:
 - Reverse this decision to keep age of entitlement at 65 – Liberals have done this one
 - Or
 - Apply the increase in age of entitlement only to OAS (demogrant) for Canadians who do not have low income
 - This one could address fiscal concerns with public pensions.

Restructure Social Assistance scheme to be an income tested GIS scheme (not as generous as full OAS/GIS)

- Provinces spend \$15billion on SA benefits annually
- These are costly to administer – Admin costs are as much as 40% over the costs of benefits
- So \$25 billion is the total SA program cost
- Costs of running public pensions are less than 5% of benefits
- So with a GAI, get benefit enrichment through recouped admin costs as benefits, get benefits of restructured transfer scheme



Bigger and beyond the current scope of the research

- Eliminate age test and solely income test for GIS/OAS benefit amount
 - Eliminate OAS and just have an increased income tested GIS benefit
 - Using same money differently
 - In 2009/10, 4.7 million Canadians received OAS, 1.6 million eligible for some GIS
 - » Of \$34.6 billion in OAS/GIS/Spousal benefit, \$28.2 billion for OAS, three quarters of that (\$21 billion) for Canadians with income too high to receive GIS
 - » Total Social Assistance Spending including admin costs in Canada by the provinces is likely around \$25 billion

Concerns with this bigger proposal

- **Cost**

- Best guess is that we would need \$30 billion to \$50 billion more than is currently spent now on SA and public pensions
 - This accounts for replacing provincial SA but not changing OAS eligibility and assuming no labour supply responses
- Labour supply disincentives
 - Evidence suggests that they are small with one exception but there are worries that they could be large
 - So phase in the program dropping the age of entitlement one year at a time and track labour supply response

- **NOTE: The literature emphasizing costs of GAI rarely discuss the benefits against which it should be balanced**

- Even considerations of reduced health spending are just part of net cost considerations
- The well-being that comes with being fed, housed and secure is not being considered.

Conclusion

A GAI through the tax system based on changing eligibility conditions of existing federal pension schemes:

- can reduce poverty symptoms and poverty rates
- can improve the health and well being of lower income Canadians
- does not require revolutionary changes on evolutionary adjustments to existing entitlements

We have used the current approach for over 300 years, maybe its time to try something else

“Sometimes the poor are praised for being thrifty. But to recommend thrift to the poor is both grotesque and insulting. It is like advising a man who is starving to eat less.”

Oscar Wilde, *The Soul of Man Under Socialism*