

Guaranteed annual income is a second-best solution to inequality

By Louis-Philippe Rochon

April 23, 2016 – *The Globe and Mail*

The economic policy debate *du jour* seems to be the guaranteed annual income. It appears every pundit and commentator in Canada is tripping over the other to offer an opinion on the idea.

In Ontario, a new poll indicates that Ontarians are warming up to it, as the provincial government offers support for the idea. The mayors of Calgary and Edmonton have voiced interest, as has the province of Quebec. Jean-Yves Duclos, the new federal Minister of Families, Children and Social Development, has mused publicly about looking into the scheme.

Abroad, Finland is about to begin a pilot project. In Paris, where I've been lecturing, the topic has dominated talk shows and public discourse.

In policy circles, the guaranteed annual income is one of those rare policies that enjoys the support of pundits across the political spectrum. The idea goes back at least to Napoleon, and has been supported by economists left (John Kenneth Galbraith), centre (James Tobin) and right (Milton Friedman).

Is this an idea whose time has come? Perhaps, but this doesn't mean it's the right one.

I can think of a few good reasons why this policy, while perhaps admirable on its face, may be less than desirable in its implications. In many respects, it is a second-best solution.

First, if the objective of a guaranteed annual income is to reduce poverty by giving every Canadian or Canadian household a basic, minimum income regardless of employment status, there are better ways to achieve this – for instance, by instituting a more progressive tax

system and raising the minimum wage. Moreover, poverty reduction cannot be disassociated from the discussion over income inequality. We need to work at both ends of the income/wealth spectrum. But guaranteed annual income says nothing about tackling the more perverse elements of inequality.

Second, once adopted, governments may no longer see direct job creation as a priority or even as an economic objective. Already, direct job creation and full employment are not part of our political discourse, and have not been for years. Governments are satisfied with talking about growth, hoping that job creation will result indirectly from it.

This situation can only worsen if governments enact a guaranteed income scheme. After all, what is the urgency of creating jobs when the poor receive a guaranteed income? Yet wages from work are far greater than any guaranteed income would be. It follows that if governments want to ameliorate the livelihood of the poor, creating jobs is a better way to accomplish this.

Third, by de-emphasizing job creation, this policy actually weakens the power of labour unions, which become stronger when unemployment is low and unionization rates are high. Such labour strength is important in light of weak wage gains relative to productivity gains. Yet, nothing in this policy helps to protect wages. If anything, a guaranteed annual income promotes keeping wages low.

Finally, I am always suspicious when the right embraces a policy from the left. It's little wonder the right likes this policy – on one hand, it weakens unions, while on the other, it reduces

government red tape and the size of the social-welfare state.

In the end, Canadians would be better off with a government committed to job creation, protecting wages, encouraging stronger unions

and addressing the inequality of income by targeting high-income earners.

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