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SOME REFLECTIONS ON THE SENATE

HEARINGS ON POVERTY

by

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## Introduction

In response to recommendations from various quarters including the Economic Council's chapter on poverty in the Fifth Annual Review, the Special Senate Committee on Poverty was created by, and its terms of reference outlined in, the following motion passed by the Senate on November 26, 1968:

That a Special Committee of the Senate be appointed to investigate and report upon all aspects of poverty in Canada, whether urban, rural, regional or otherwise, to define and elucidate the problem of poverty in Canada, and to recommend appropriate action to ensure the establishment of a more effective structure of remedial measures;

That the Committee have power to engage the services of such counsel, staff and technical advisers as may be necessary for the purpose of the inquiry;

That the Committee have power to send for persons, papers and records, to examine witnesses, and to report from time to time;

That the Committee be authorized to print such papers and evidence from day to day as may be ordered by the Committee, to sit during sittings and adjournments of the Senate, and to adjourn from place to place .....

Early in 1969 eighteen Senators were appointed to the Committee with Senator David A. Croll as Chairman and Senator Fournier as Deputy Chairman. For the next few weeks the Committee assembled a research staff (under the directorship of Frederick Joyce), familiarized itself with some background data relating to poverty in Canada as well as the various U.S. research programs and institutions in the poverty area, informed various individuals, associations, and government agencies across the country about the forthcoming study and urged them to participate in the proceedings, and completed a host of administrative

details necessary to the functioning of the Committee. Finally, on April 24, 1969, the first of many witnesses testified before the Senate Committee and appropriately enough the honour went to the Economic Council. In its Brief the Council suggested that the Senate Committee had within its power the scope for making three important types on contributions:

First, given the co-operation of both governmental and private witnesses and of the information media, it can conduct a kind of protracted public seminar which will bring home to Canadians the extent and consequence of poverty in this country. Secondly, with the aid again of witnesses and also of its own research staff, it can fill some of the crucial knowledge gaps which currently bedevil adequate analysis of poverty and of policies to eliminate it. Finally, the Committee can do much to build a broad public consensus in favour of moving towards a sounder and more purposeful structure of anti-poverty policies that we have today. <sup>(1)</sup>

On the first point, the Senate Committee has done an admirable job. Two hundred and thirteen (my count) institutions, religious organizations, government agencies and individuals appeared before the Committee. These hearings, including the Briefs where relevant, are available to the public in ninety-three proceedings of the Senate. As a result of these hearings and the coverage given them by the communications networks, Canadians are indeed now better informed concerning the existence, extent and characteristics of our nation's poor people.

On the second and third points raised by the Economic Council, it is probably too soon to evaluate the

(1)

"Brief to the Special Committee on Poverty of the Senate of Canada, April 1969", Proceedings of the Special Senate Committee of Poverty, No. 1, 1st Session, Twenty-Eighth Parliament, 1968-9, p. 29. Henceforth the citation to the Poverty Hearings will simply be Senate Proceedings ...

performance of the Senate Committee. Numerous research studies investigating various aspects of the poverty question have been completed. While the Committee has not as yet released its final report it has on two occasions made public its views on poverty in the form of an "Interim Report" and a "Progress Report" (2). However, the resignation of four members of the research staff earlier this year and the controversy surrounding their departure have cast considerable doubt on the future of the Senate Committee. Senator Croll has assured the nation that the Committee will produce a final report. The defectors also appear to be moving in the direction of issuing their own "final report". It would be unfortunate indeed if the result of all this is that the background studies never become public. We would urge the Committee to make public these staff studies even if it feels that it must attach a disclaimer disassociating itself from the findings and/or recommendations. Too many gaps in our knowledge of the extent and nature of poverty currently exist to justify censuring of any of the staff studies.

These remarks are by way in introduction to my subject matter which concerns not so much the Senate Committee as the Committee Hearings. And even here the topics that follow will not all be concerned directly with the Hearings. Rather we intend to look at the Hearings partly in the context of the overall problem of poverty and partly in the context of Canada's overall approach and philosophy in the area of socio-economic policies ( i.e., policies intended to have

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(2) Senate Proceedings No. 53, Second Session, Twenty-Eighth Parliament (July 6, 1970), and No. 12, Third Session, Twenty-Eighth Parliament (November 12, 1970) respectively. Later in this paper we shall have occasion to refer to these reports in terms of what they might imply about the likely recommendations in the final report.

their primary influence on the distribution of income.) Specifically the paper proceeds as follows. The next section will present an overview of poverty - its definition, causes, characteristics and the policies that now exist to deal with these problems. Included also is a discussion of some aspects of negative income taxation as it might relate to the Canadian context. All this is by way of introduction to the paper. Section III focusses directly on the Senate Hearings themselves. Rather than attempt any sort of summary, the approach is to group the hearings into three categories - federal government briefs, provincial government briefs, and the Senate Committee's own views as embodied in the Interim Report and the Progress Report. The section will conclude with some observations on the role of economists in the Hearings. Section IV then proceeds to look at the proposed federal legislation in the welfare area as well as assess the priority assigned by the Federal government to poverty. Section V does the same for proposed legislation at the provincial level but here the analysis deals only with the Castonguay-Nepveu Report. Concluding this latter section will be some references to the role of the constitution in discussions relating to poverty and welfare.

## II. POVERTY: AN OVERVIEW

### A. The Concept of Poverty

It is very clear from the various briefs to, and testimony before, the Senate Committee that poverty in Canada is a multidimensional problem. On a high level of generality one can talk about economic poverty, cultural poverty and social poverty. On a more specific level, one could run through a list of the characteristics of Canada's poor people and suggest that poverty embraces all these symptoms and situations. Typical of the sorts of definitions of poverty that arise from this all-embracing approach is that framed by the Department of the Secretary of State in their brief:

"Viewed as a range of what tend to be reinforcing disabilities - unemployment, inferior education, poor health, lack of motivation, unstable family life, discrimination, and so on - poverty becomes a set of conditions that renders its victims incapable of participating in our society". (3)

Indeed the thrust of many of the briefs is in the direction of arguing for an examination of the distribution of "well-being" among Canadians rather than a distribution of income in order to assess the extent of poverty in the country. To attempt such an exercise would require information on various social indicators (e.g. health care, crime statistics, pollution levels, mental stress, education levels) which combined with income data, could be used to generate some sort of "felicity index" which in turn could then be employed to assess the well-being of Canadians. While work on developing more appropriate social indicators is currently under way in Canada and while we feel

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(3) Senate Proceedings ..., No. 3 (1st Session - 28th Parliament)  
p. 97

that such information will be of considerable importance in this era when the emphasis is more and more on the quality of life, the proposition underlying this paper is that by far the most important characteristic and determinant of poverty is the level of income. Relatedly, the most important ingredient in a solution to the poverty problem is to raise the incomes of the poor to an "acceptable" level. Until economic poverty is solved little can be accomplished in the way of providing solutions to the cultural and social dimensions of poverty.

Accordingly, we shall define poverty as a persistent deficiency of goods and services. <sup>(4)</sup> This deficiency is not merely with respect to some level necessary for physical survival but rather with respect to some culturally defined living standard which would take account of family size, the average level of income of Canadians, and perhaps geographical location. In attempting to lend this definition some empirical content for purposes of assessing the extent of poverty in Canada, two approaches are possible. First, "one can define the minimum income level in terms of real income and expect this definition to be revised from time to time as the overall standard of living rises". <sup>(5)</sup> This is essentially the approach taken by Miss Jenny R. Poduluk in her work on poverty in this country. In 1968 dollars, Miss Poduluk's figures are \$1,800 a year for a single person, \$3,000 for a family of two, \$3,600 for a family of three, \$4,200 for a family of four, and

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(4) This definition is from the Brief submitted by the Department of Manpower and Immigration, Senate Proceedings No. 10, 1st Session, 28th Parliament, p. 365). We might note in passing that from the viewpoint of economic analysis the Manpower and Immigration Brief is really first rate.

(5) Ibid, p. 366.



\$4,800 for a family of five. An alternative approach, and one which the Manpower and Immigration brief finds preferable, is to define poverty in terms of a relationship to average money incomes, that is, a ratio of some measure of the average living standard. On this issue we side with Harold Shapiro who defines poverty in absolute terms and prefers to think of the relative definition (i.e. the second alternative above) more as a measure of income inequality than of poverty. Even if the income elasticity of the poverty line is large, it is still preferable to think of poverty in absolute terms since in Shapiro's words "there may always be some Canadians richer and better off than others but it need not follow that the poor are always with us." (6) Finally, in assessing the extent of poverty in Canada several approaches are also possible. The most common is to count the poor who are below the poverty line and express this figure as a total or as a proportion of total population of either a regional or national bases. Since all persons below the poverty line do not possess identical incomes one alternative approach would be to calculate the income deficiency, namely the amount by which a poor person's income falls below the appropriate poverty line. By summing this figure and expressing it as a percent of GNP this would provide an indication of what it would take to "lift" the poor to the poverty line. (7) Much more in the way of background research needs to be done in this whole area of estimating the extent of poverty in Canada. Obvious things like relating individuals' current incomes to their expected life-cycle earnings in order to ascertain

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(6) Harold T. Shapiro "Poverty - A Bourgeois Economist's View", in Officer and Smith (eds.) Canadian Economic Problems and Policies, (Toronto, McGraw-Hill, 1970) pp. 227-8.

(7) This approach is suggested in the Manpower and Immigration Brief, op. cit. p. 367.

whether current income levels actually reflect a condition of poverty have not yet been satisfactorily carried out, let alone more extensive examinations of the economic characteristics of Canada's poor.

From the very beginning of the Hearings, however, the Senate Committee itself and many of the witnesses presenting briefs opted for an alternative classification of the nation's poor. Specifically they considered the poor as falling into three broad categories:

- a) persons who are unavoidably and completely outside the labour force. This category includes such groups as the disabled, the blind, the physically and mentally ill, the elderly, and the female heads of families who cannot go out to work because their children are too young. In rough figures, this category accounts for 25% of the poor.
- b) the "hard-core welfarites". Accounting also for about 25% of the nation's poor, these people are not out of the labour force in the necessary and final sense of the first category, but they are for all practical purposes unemployable at the present time.
- c) those who are currently in the labour force, whether unemployed or not, and whose incomes fall short of the poverty line. This group is the "working poor" and accounts for about half of the poverty problem. (8)

#### B. The Costs of Poverty

Basically one can perceive of three types of costs associated with poverty. First and most obvious is the human cost - the untold misery and suffering of those people saddled with poverty. The Hearings did much to bring out in full view to all Canadians the extent of this

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(8) Perhaps the best description of these three categories (and descriptions which in part were used above) is given in the Brief by Tom Kent, Deputy Minister of Regional Economic Expansion. Senate Proceedings... No. 17, 2nd Session, 28th Parliament) pp. II. 32 - II.33.

human cost. Second, there is the economic cost reckoned in terms of lost output to society. There are several measures of this economic cost. Comparison between full employment output and current output is the most obvious measure of the increased output to be gained by moving to full employment. Dr. Clarence Barber has recently put this figure at over 5 billion dollars. (9) One can take a somewhat broader view of the economic costs arising from the failure of the economy to operate at full employment levels. To the extent that as a result of poverty some persons drop out of the labour force, the appropriate economic cost is measured as the shortfall of current income from the full employment level of income where the latter is defined inclusive of all those who have the potential of being labour force participants. One could go further still and define full employment output as the level of output that would be forthcoming if the poor were allowed to acquire the earning capacity appropriate to their potential.

Finally, to the extent that the poor in Canada are provided with transfer payments of various sorts, one can speak of the pecuniary costs in the form of higher tax rates to the rest of society in providing these transfers. If this tax-transfer mechanism serves to decrease the level of output in the economy, part of the pecuniary cost is translated into an economic cost, in addition to that mentioned above. (10) (11)

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(9) C.L. Barber, "Brief to the Standing Senate Committee on National Finance." (May, 1971), p. 3.

(10) The Economic Council estimates that for a man with a normal life expectancy and who marries and has a small family the total welfare payments over a period of 45 years is in the neighbourhood of \$134,000.

(11) In the Sixth Annual Review chapter on poverty, the Economic Council discusses a related type of economic cost, namely "diverted output." For example, the existence of poverty leads to the diversion of resources to deal with more sickness than would otherwise occur, more administration public welfare and assistance programs, etc. (Ottawa: Queen's Printer, 1969) Chapter 7.

C. Causes of Poverty

Quite often analyses of the causes of poverty end up being a descriptive categorization of the symptoms of the poor. This was the case for many of the groups testifying before the Committee. But consistent with our earlier contention that poverty is essentially an economic problem we intend to look to the economic system to find the causes of poverty. However, we recognize fully that for poverty of the type described in category a) above the descriptive approach is most appropriate. The disadvantaged of this group are poor because they are blind, physically ill, etc. To some degree the descriptive approach to the causes of poverty is also appropriate for those persons in category b) - i.e. those potentially but not currently in the labour force. But for the bulk of those in category b) above and for the "working poor", we can, following Harry Johnson conceive of the causes of poverty as falling into one of three broad types:

- 1) "poverty .... [resulting from] failure of the economy to provide enough jobs for those able and willing to work, and capable of earning an adequate income if allowed to work", i.e. inadequate aggregate demand.
- 2) "poverty .... [arising from] inability of individuals to contribute enough service to the productive process to earn an income above the poverty level", i.e. inadequate marginal productivity.
- 3) "poverty .... [arising from] the existence of restriction of greater or lesser severity on the opportunity for individuals to participate in the productive process to the full extent of their potential" (12), i.e. discrimination.

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(12) Harry G. Johnson, "Poverty and Unemployment," in Weisbrod, B.A. (ed.) The Economics of Poverty: An American Paradox: Prentice Hall 1965, p. 166. Underlining is not in the original.

Poverty of the first type is solely a result of unemployment or underemployment. Maintaining full employment will eliminate this type of poverty. Poverty of the second type can be eliminated by raising workers' marginal productivities. In part this could be attained by an accumulation of physical capital. More likely, however, the principal way of increasing the marginal productivity of labour is to increase the price employers are willing to pay for labour services, i.e. to increase the value of human capital. Following Thurow, we can regard the value of human capital as being divided into a price and quantity component. "Education and on-the-job experience provide the principal means for increasing the quantity or quality of an individual's capital" while "migration, improvements in information .... are the chief instruments to raise the price of existing human capital". (13)

It is for poverty of this type that manpower programs involving retraining, placement and relocation services can and do play an important role in increasing worker marginal productivity.

As stated above, poverty of the third type is essentially the result of various types of discrimination which are more widespread that might appear at first sight. (14) One can isolate several broad types of discrimination:

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(13)

Lester C. Thurow, Poverty and Discrimination (Washington: The Brookings Institution, 1969,) p. 69.

(14)

Johnson, op. cit. p. 167.

- a) inadequate opportunities for certain segments of society to acquire skills up to the full extent of their potential, e.g. educational and health opportunities are not available equally to the poor, markets for human capital are imperfect and discriminate against the poor, information is not as readily available to the poor.
- b) monopoly power on both the demand and supply sides of the market, e.g. on the supply side unions of all types (professional, medical and labour) attempt to maintain their wages above competitive levels by imposing either quantitative or qualitative restrictions on entry; on the demand side, various types of price discrimination such as interest charges and in some cases product prices (for Negroes in the U.S., for example) have adverse effects on the poor.
- c) discrimination directed against specific groups, e.g. Indians, Métis, the elderly, the uneducated, working women. This discrimination can take the form of restricting job opportunities open to them or denying them promotion or "equal pay for equal work".

On the observed association of poverty with low levels of educational attainment, Johnson suspects that "discrimination is partly responsible ... in the sense that the requirement of educational qualifications is often less .... that these are essential for holding a particular job .... that they serve to narrow down the applicants that have to be considered to a manageable number". (15)

In the process of outlining the causes of poverty we have, in fact, also set forth a framework for a solution to the poverty problem. However, it is important to recognize that raising skill levels and enacting legislation to remove elements of discrimination

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(15) Johnson, op. cit. p. 168. Arguing on much the same grounds, Burton Weisbrod contends that the returns-to-education studies are likely to overestimate the real returns to education. (Address before the Ottawa Political Economy Club, May 18, 1971.)

can never be successful in resolving the poverty issue unless there is a high demand for goods and services:

"The point is that most of the sources of poverty will gradually dissolve under the pressure of a high demand for labour, .... The key to the solution of the poverty problem, therefore, is not simply to try to educate and train the poor up to the point where someone will find them employable at a decent wage, but to raise demand so as to make labour scarce enough for it to be privately profitable to find a way of making the poor employable at a decent wage .... In the absence of a policy of raising the demand for labour to the stretching point, ad hoc policies for remedying poverty by piecemeal assaults on particular poverty-associated characteristics are likely to prove both ineffective and expensive. The most effective way to attack poverty is to attack unemployment, not the symptoms of it." (16)

Now consider the situation where poverty does exist as is the case now in Canada. The force of the above argument is that the root cause of poverty lies in the economic system rather than in the personal motivation and talents of the poor themselves. If the nation feels that the unemployment rate cannot be brought down to a more appropriate level because of some alternative goal to which we aspire, say price stability, then some other alternative must be implemented to ensure that the poor are not left in desolation. This is especially true when one considers that full burden of the war on inflation falls directly on the unemployed. We have a long history of compensating the casualties of military service and it seems only reasonable that the casualties of the economic system deserve a similar consideration. (17)

This leads us directly into a discussion of methods Canada employs to compensate its economic casualties and also to one of the main

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(16) Johnson, op. cit. pp. 169-70. Very few of the briefs presented to the Senate Hearings were this explicit about the crucial role played by the level of aggregate demand. Two notable exceptions were the Department of Manpower and Immigration, and the Brief presented by Tom Kent, the Deputy Minister of the Department of Manpower and Immigration.

(17) This sentence is adapted from Johnson, op. cit. p. 167. We shall return to this train of thought later.

purposes of the Senate Hearings - to ensure the establishment of a more effective structure of remedial measures for the nation's poor people.

D. Existing Policies in the Income Security Area

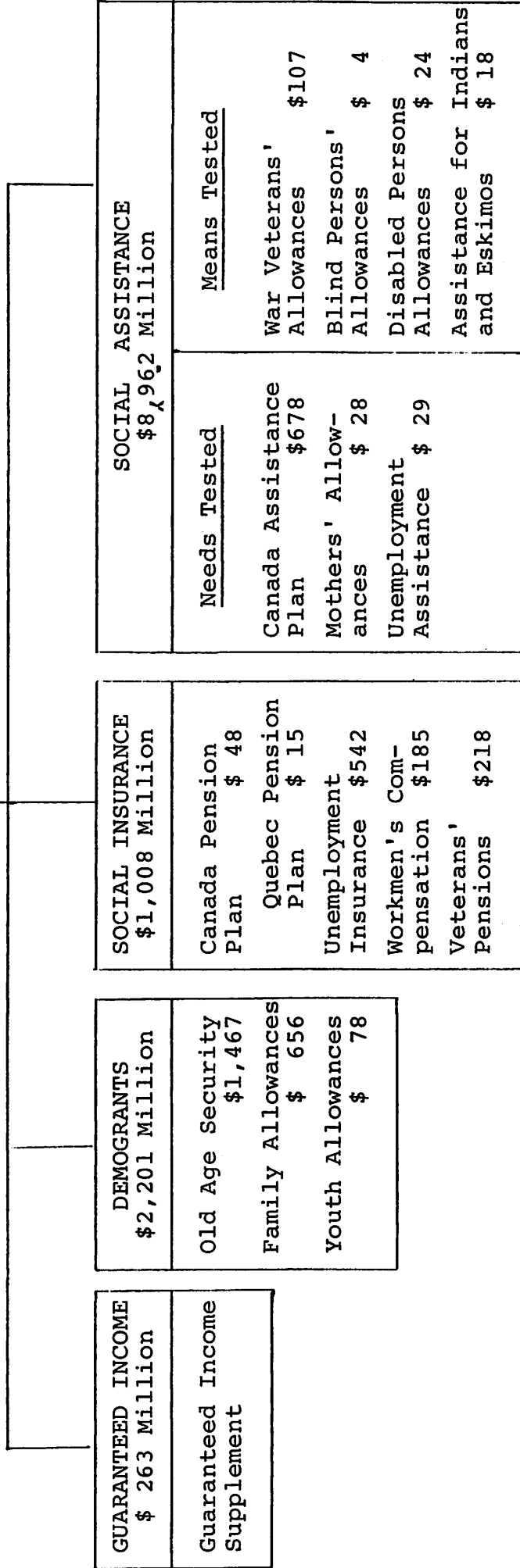
Chart 1 presents in outline form the various income security programs available to Canadians. We shall assume familiarity with these programs. Further details are available in Income Security for Canadians, the recent White Paper issued by the Department of Health and Welfare. Normally when one refers to welfare or to the dole, it is the social assistance programs that one has in mind. The largest component of social assistance is the Canada Assistance Plan which is a provincial responsibility but is financed on a 50-50 basis with the federal government. It is this program which has come under most fire recently. Information relating to social assistance is often too meagre, the administration of the program often appears quite arbitrary, appeal procedures are underdeveloped, recipients often feel a stigma attached to receiving aid in this form, and funds are generally not provided in a manner that encourages self-support. Not surprisingly, most of the witnesses before the Senate Committee who were critical of the Welfare system directed their attention to this program. However, it is important to remember that the Canada Assistance Plan is only one of many elements in the overall social security structure. It is also important to remember that social security policies are only one of the many types of government policies that have an impact in the distribution of income.

With this background we are ready to go on to the main part of the paper - some reflections both on the Senate Hearings on Poverty, and on the overall problem of poverty in Canada. However, it seems appropriate to detour a bit first and devote some attention to the concept of negative income taxation.



C H A R T I

**INSTRUMENTS OF CANADIAN INCOME SECURITY POLICY**  
\$4,368 Million



Values in millions of dollars for 1969-70

Source: Pages 20 and 58 of the Department of Health and Welfare White Paper, Income Security for Canadians, (1970).

E. Negative Income Taxation

No current discussion of solutions to poverty can avoid introducing the concept of a guaranteed annual income or, more specifically, the negative income tax (NIT). From the outset we shall reveal our bias and suggest that we find the NIT concept to be the most appealing approach to alleviating the income deficiency of the poor. The concept is familiar enough that we do not need to go into the details of various NIT schemes. For purposes of what follows it is convenient to think of a Friedman-type plan where the exemption levels for income tax calculations set the poverty line, and the guaranteed income level is 50% of the exemption level. Note that this income guarantee need not be paid out annually but could be issued in monthly installments, for example. To ensure that the scheme meshes well with the positive side of the tax system it is convenient to have the tax rate on other income equal to the ratio of the income guarantee to the poverty line (50% in this example).

It is important to remember that a negative-income-tax scheme does not represent a solution to poverty. As stressed above, the solution lies in the direction of maintaining full employment, building up the earning power of individuals and ensuring equal opportunity for all to participate in the productive process. What a negative income tax does and what other welfare programs do is to treat the symptoms of poverty, namely inadequate income. Our preference for the NIT type schemes over the existing forms of social assistance relates to the following characteristics:

- a) the NIT scheme would be administratively considerably more efficient than existing welfare schemes;
- b) it could replace a host of current welfare legislation and, hence, rationalize welfare to the point where the system would be straightforward and well understood by all. Furthermore, it would mesh quite easily with any other income security programs that might exist alongside a NIT scheme;
- c) it is efficient in the sense that families or individuals with the greatest income deficiencies will receive the largest income supplements;
- d) the payments under an NIT scheme come as a right rather than a privilege. By removing the stigma attached to receiving welfare in the more traditional manner, the NIT scheme should serve to maintain human dignity which quite apart from its intrinsic value may well be of considerable importance in affecting the attitudes of the poor toward ancilliary programs, such as retraining courses, which attempt to bring them more fully into the productive process.
- e) the tax rate on earned income is substantially less than 100% (50% in the Friedman plan) which should have a substantial positive effect compared to the existing welfare plans on the incentive to work.

In summary, for any given sum of money allocated for supplementing deficient incomes an NIT scheme will mean that more money will reach the poor because of administrative efficiency, that the money will automatically be allocated to those in most need, and that the overall economic cost to society will be lower because the 50% tax rate on extra incomes earned should encourage persons to participate more in the labour force, thus increasing real output. To the extent that the 50% tax rate on extra income does not affect the incentive to work from what it would be in the absence of a selfare scheme, the overall pecuniary and economic cost of bringing poor peoples incomes up to

an acceptable level could be substantially less under the NIT than for any other welfare scheme. (18)

This issue of a less than confiscatory tax is exceedingly important. Under the present social assistance provided via the Canada Assistance Plan, tax on earned income is, for all intents and purposes, 100% in most provinces. Assuming that the alternative to social assistance is working at the minimum wage, this 100% tax has the objectionable feature that full-time employment at the minimum wage level is a meaningful alternative only for single individuals and small families. This is especially true when one remembers that earned income is taxable while assistance under the CAP is exempt from taxes. This situation arises because social assistance is geared to family size while the minimum wage is not. Table 1 sets out very clearly the full extent of the problem. Annual incomes at the minimum wage levels for each province are presented in column 3. Columns 5, 7, and 9 present, for each province, the levels of social assistance for families of 4, 5, and 6 persons respectively. For a family of five persons, only Quebec and British Columbia have assistance levels below the annual earnings at the minimum wage levels. Given that there are

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(18) Concerning the various NIT experiments in the USA, Harold Watts states: "the only prudent conclusion at this point is that no convincing evidence of differences between control and experimental (i.e. NIT) families has been found. This is a remarkable finding in itself, since there is a widespread belief that such payments will induce substantial withdrawals from work and increase in other forms of dependence....no significant changes (in work habits) have been found....but to the extent that differences appear between control and experimentals they are generally in favour of greater work effort for experimentals. Hence anyone who seeks to support an argument of drastic disincentive effects cannot expect to find even weak support in the data as far." "Adjusted and Extended Preliminary Results from the Urban Graduated Work Incentive Experiment". Institute for Research on Poverty, University of Wisconsin, 1970.

Table I  
 COMPARISON OF MINIMUM WAGE RATES AND PROVINCIAL ASSISTANCE RATES FOR  
 FAMILIES OF 4, 5 and 6 PERSONS, AS AT DECEMBER 1, 1970.

PROVINCE	CURRENT MINIMUM WAGE RATE (a)			PROVINCIAL ASSISTANCE RATES (b) FOR A FAMILY OF:					
	PER HOUR	PER MONTH	ANNUAL WAGE 2080 HOURS	4 PERSONS (c)		5 PERSONS (d)		6 PERSONS	
				MONTHLY	ANNUAL	MONTHLY	ANNUAL	MONTHLY	ANNUAL
Newfoundland	\$1.25	\$217.00	\$2,600	\$230 (f)	\$2,760	\$255 (f)	\$3,060	\$280 (f)	\$3,360
P.E.I.	1.25	217.00	2,600	244 (g)	2,928	270 (g)	3,240	305 (g)	3,660
Nova Scotia	1.25 (h)	217.00	2,600	263 (i)	3,156	274 (i)	3,288	310 (i)	3,720
New Brunswick	1.15	199.00	2,392	188 (j)	2,256	202 (j)	2,424	224 (j)	2,688
Quebec	1.40 (k)	243.00	2,912	218 (l)	2,616	232 (l)	2,784	243 (l)	2,916
Ontario	1.65	286.00	3,432	271	3,252	303	3,636	335	4,020
Manitoba	1.50	260.00	3,120	246	2,952	267 (m)	3,208	303 (m)	3,640
Saskatchewan	1.25	217.00	2,600	215 (n)	2,580	250 (n)	3,000	275 (n)	3,300
Alberta	1.55	269.00	3,224	335 (o)	4,020	365 (o)	4,380	395 (o)	4,740
B.C.	1.50	260.00	3,120	211 (p)	2,532	249 (p)	2,988	287 (p)	3,444

SOURCE: Monthly Budgets for Items of Basic Need under Provincial Social Assistance Programs (Revised December 1970.) Research Division, Department National Health and Welfare.

- a) Rates quoted are general minimum rates. General rates for women in 3 Atlantic provinces (Nfld., P.E.I., N.S.) are less than those for men: in Nfld. \$1.00; in P.E.I. \$.95; in N.S. \$1.00).
- b) Basic rates only for food, clothing and shelter. (Rent allowance note included for Nova Scotia). All provinces make provisions for increased allowances under special circumstances (e.g., special diet; increased rent where necessary). Most provinces pay medical and hospital care and also the cost of drugs where necessary. These cases should only be considered as approximations since every individual and family is different. See other footnotes.
- c) 4 persons - i.e., 2 adults and 2 children: girl 8 years and boy 13 years.
- d) 5 persons - i.e., 2 adults, and 3 children; boy 6, 1 girl 9, and boy 11.
- e) 6 persons - i.e., 2 adults and 4 children; girl 4, boys 7, 9, and girl 12.
- f) Urban rates, including fuel allowance.
- g) Urban rates.
- h) Minimum wage rate will be increased at January 1, 1971 to \$1.30 for men and \$1.10 for women and at July 1, 1971 to \$1.35 for men and \$1.20 for women.
- i) Amounts shown include approximate allowances for rent, fuel and utilities, which together could amount to a maximum of \$115.00 per month. However a ceiling of \$175 is set for a family receiving a provincial allowance. Supplements may be given by the municipality - e.g., in the City of Halifax approximate monthly amounts for a family of 4 would be \$278.00, for a family of 5 - \$292.00, and for a family of 6 - \$315.00
- j) Urban amounts including a maximum of \$60 per month for shelter. In most cases rent is paid in full. Utilities and fuel are excluded from amounts shown above. However, these 2 items are paid on basis of actual cost.
- k) Minimum Wage Rates will be increased as follows: at May 1, 1971 to \$1.45 per hour and at November 1, 1971 to \$1.50 per hour.
- l) Lodging, food, clothing, personal and household expenses, urban area.
- m) Exclusive of fuel and utilities which are paid on the basis of actual cost.
- n) Amounts include \$75 per month for rent. Amounts include monthly allowances of \$50, \$55, and \$60 for rent. However, the full rent may be paid in some cases. Fuel is usually paid on the basis of actual cost and is not included in the monthly amounts of \$215, \$250, and \$275 as shown in the above table.
- o) Set amounts are only given for food and clothing. However, it is possible for families to receive the amounts shown when rent, fuel, electricity are shown at cost, and approximately \$20 per month for personal allowances is included. (As per telephone conversation with official of Department of Social Development, Alberta).
- p) Does not include coverages. An additional amount of up to 50% may be allowed for rent, or the actual rent may be paid.

various costs associated with working in addition to the fact that earned income is taxable, it is quite clear that employment is not a meaningful alternative to welfare even at income levels considerably above the annual income equivalent of the minimum wage rate. The net result is that our present welfare system is exiling a substantial portion of the poor into the category of "hard-core welfarites", to use Senator Croll's term. Furthermore, because this built-in incentive to remain on welfare is intensified for larger families, an entire sub-generation of Canada's young people will be growing up under the stigma of welfare and with the alienation from society that a welfare sub-culture will instill. It is precisely for this type of "notch" problem that a negative income tax can make its most important contribution.

It may appear as if we are offering the NIT as a panacea for the plight of Canada's poor. This is not the case. There will probably still be a role for social assistance because the level of the income guarantee under a NIT is not likely to provide enough income to maintain all families at a decent living standard. Those families headed by women will still require social assistance, as will those persons who for various reasons are irrevocably out of the labour force. The amount of additional assistance will, of course, depend on the level of the income guarantee in the negative income tax. (19) Our principal point is simply that there appears to be no viable alternative in subsidizing the incomes of the poor to a scheme which has the characteristics of the NIT.

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(19)

However, the Castonguay-Nepveu Report does develop a NIT scheme which would in fact do away with all social assistance programs. See more on this in Section V.

Two of the criticisms of the NIT proposal that have been raised relate first to the fact that the proposal is very novel and no one can predict what the effect of introducing the scheme will be and, secondly, that in the final analysis NIT is still welfare and as such is to be avoided. We shall deal with each of these in turn.

It is true that, apart from a few pilot projects mostly in the U.S.A., the negative income tax scheme has not yet been put to the test. (20) The guaranteed income supplement for the aged (GIS) that exists as part of Canada's income security package is not really of much use in providing information for the workings of a universal scheme because it operates on a small scale and virtually all of the recipients are out of the labour force. However, there is a large scale guaranteed-income-type scheme that embodies many of the NIT characteristics - namely the revenue-equalization scheme among Canada's provinces. The scheme as described by the Minister of Finance in 1966 is as follows:

"It would provide that any province in which average provincial tax rates ( not its own tax rates) would yield less revenue per capita than the yield in Canada as a whole would be entitled to an equalization payment. The payments would be arrived at in this way. We would determine.....the tax base for each revenue source - and the average level of the rates or levies which the provinces generally impose. Then we would apply this average tax level to the tax base in each province.....to find out whether the per capita yield in the province is below the national average. If the total yield of all provincial revenues, calculated in this way were to yield less than the national average in any province the Federal government would make up the difference in equalization payments." (21)

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(20) As footnote 18 indicates, however, the prognosis is good.

(21) Statement by the Honourable M.W. Sharp, Minister of Finance to the Federal-Provincial Tax Structure Committee, Federal Provincial Tax Structure Committee, Ottawa; Queen's Printer, 1966, p. 16.

In an aggregated fashion one can express the total revenues of province  $i$  as (where all values are in per capita terms): (22)

$$R_i = t_i B_i + t_c (B_c - B_i) - t_s B_i$$

where

$t_i B_i$  = province  $i$ 's revenue from its own sources - equal to its average tax rate  $t_i$  times its base  $B_i$ .

$t_c (B_c - B_i)$  = the equalization payment (defined only for the have-not provinces, i.e. only for  $B_c > B_i$ ) where  $B_c$  and  $t_c$  are the Canadian average tax base and tax rate respectively.

$t_s B_i$  = the payment required of province  $i$  to "pay" for the subsidies. The assumption here is that the subsidies are to be financed by assessing each province a share of the total cost in proportion to its tax base,  $B_i$ . Naturally, the tax rate,  $t_s$  (assumed to be proportional) depends on the amount of the subsidies.

One can engage in some interesting analytics by differentiating this equation partially with respect to, for example,  $B_i$ ,  $B_j$ ,  $t_i$ , and  $t_j$ , and noting how these changes affect the revenues of province  $i$ . This is not our concern here. Rather it is to argue that his scheme closely resembles a negative income tax with a full (100%) income guarantee, but with a substantial "work incentive". Consider what happens if province  $i$  increases its tax rate,  $t_i$ . Its subsidy will not fall. Indeed it will increase to the extent that the increase in  $t_i$  is reflected in an increase in  $t_c$ . Here then is a case where a poor province gets to keep all (and then some) of an increase in revenue it generates through increased tax effort (i.e. an increase in  $t_i$ ) even though it is

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(22) This formulation is modelled after those appearing in R.A. Musgrave, "Approaches to a Fiscal Theory of Political Federalism", Public Finances: Needs, Sources and Utilization (Princeton: Princeton University Press, 1961) pp. 97-122.



simultaneously receiving a subsidy from the other provinces via the federal treasury. This excursion on federal-provincial tax equalization may have carried us somewhat far afield but it does drive home the point that while the NIT scheme may appear novel there is a long-standing and well-accepted program in Canada that resembles very closely the essentials of negative income taxation.

On the second issue as to whether or not the NIT scheme can be construed as being welfare, I think that a case can be made for NIT on the basis of equity alone. For a family of five persons, current exemptions for income tax calculation plus the \$100 standard deduction amount to \$3,000. The value of this exemption to a family depends on the family's total taxable income, i.e. on the marginal tax rate. For a family in the 50% bracket this exemption is worth \$1,500. For a family in the 80% bracket this exemption is worth \$2,400. But for a family with no income this exemption is worth nothing. Since we consider the exemption level and the progressivity of the tax system as conceptually independent matters (even with a proportional income tax the exemption level is worth nothing to a family with no income), it is not equitable to have the value of basic exemptions decided upon by the income level of the family unit. What is the basis for the government bestowing a transfer of \$2,400 to the 80% bracket family, \$1,500 to the 50% bracket and nothing to the zero income family? One does not have to be too much of an egalitarian to argue

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(23) In passing we note that if the federal government is interested in making it ever more rewarding for the poorer provinces to increase their tax rates, the formula could be revised so that the subsidy term was of the form  $t_i(B_c - B_i)$  rather than  $t_c(B_c - B_i)$ .

that if the government is in the business of bestowing gifts on families, these gifts should be available equally to all (for given family size) regardless of income. Hence the case for negative income taxes on equity grounds.

Actually, while on the subject of equity, the preferred type of negative income tax on equity grounds is similar to that proposed by James Tobin, <sup>(24)</sup> namely refundable tax credits. On the Canadian scene the case for tax credits over exemptions has been persuasively argued by T. Russel Robinson. <sup>(25)</sup> Basically, this latter proposal argues for a fixed dollar tax credit rather than an exemption for tax purposes. This implies that so long as units have incomes above the tax credit values, the value of these tax credits is independent of the marginal tax rate. To make the value of these tax credits equal to all regardless of income level, all that is required is that they become refundable. In Canada, family allowances are a perfect example of refundable tax credits. Rather than allowing a deduction of \$550 for a dependent child, the exemption is only \$300 if the child is eligible for family allowances. <sup>(26)</sup> Therefore the extra \$250 exemption is replaced by an across-the-board refundable tax credit of \$72 per year (for a young child). Whereas the \$250 exemption

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(24) "On Improving the Economic Status of the Negro", Daedalus, Fall 1965, pp. 878-898.

(25) "The Treatment of Dependents Under the Personal Income Tax", The Canadian Tax Journal, Vol. XVIII, 1970. pp. 44-47

(26) The current tax forms make no allusion to this possibility, but previous tax forms did.

would have meant \$200 to the 80% bracket family, \$125 to the 50% bracket family, and nothing to the zero income family, the \$72 is given to all regardless of the level of family income. The equity grounds that argue for negative income taxes are the same as those underlying the family allowance payments.

We now turn to a discussion of the Senate Hearings.

### III THE SENATE HEARINGS ON POVERTY

Extending over the first three Sessions of the Twenty-Eighth Parliament the Proceedings of the Special Senate Committee on Poverty constitute a seemingly endless discussion on all aspects of poverty in Canada. As stated above the proceedings number just under one hundred, representing testimony and briefs from well over two hundred government departments and agencies, national and local professional associations, countless welfare agencies and religious organizations and individual citizens. To attempt a summary of the Hearings would be extremely difficult and of questionable value since many of the briefs and testimonies present points of view of special interest groups and agencies so that they merely represent an extension of the agencies' goals and current policies. Only a handful of witnesses attempted to cast the problem of poverty in a framework broader than their own special area of interest and even when they did the result was usually a series of tentative and piecemeal generalizations not linked to any master plan for attacking poverty. For example, a good many witnesses spoke favourably of a guaranteed annual income, but when asked to be more specific most did not seem to have much of an idea of how they would go about designing such a scheme, nor were they ready to suggest which current services if any, could be eliminated by the presence of a guaranteed income. This is not to say that the proceedings were not valuable. As a result of the Hearings all Canadians have access to a tremendous wealth of information relating to all aspects of poverty. This information is vital for a full understanding of the "condition of poverty" in Canada. Furthermore most of the witnesses recommended important changes in the legislation

within which they operated, in the overall approach taken to particular problems, in the relative importance that ought to be given to their various functions, etc. Even though their concern was normally channelled toward a particular area of interest (27) their suggestions do provide some essential micro components of any overall program designed to deal with poverty in Canada.

In lieu of attempting an overall summary or even a consensus of opinion on certain aspects of poverty, and in light of the overall approach of the paper, we shall confine our references to the Hearings to delving briefly into the views expressed by three specific groups, namely the federal government departments, the provincial departments of welfare, and the views of the Senate Committee itself as expressed through the various statements of its Chairman, Senator Croll. Later in this section we shall make some brief comments relating to the suitability of Senate Hearings as a vehicle for conducting major policy investigations.

#### Federal Government Briefs

Like the vast majority of presentations most of the briefs from the various federal government departments dealt with the problem of poverty as it related to their view of the world. For example, the brief of the department of the Secretary of State viewed poverty within the broad context of the overall economic, social and cultural well-being of Canadians; the department of Agriculture dealt with and

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(27) In a great many cases this "narrow" approach was fully justified. It is clearly appropriate and indeed essential for associations such as CNIB and the Métis Societies and Indian Brotherhoods to focus on the problem associated with, and make proposals relating to, their own situation.

detailed some solutions relating to rural poverty; Consumer and Corporate Affairs outlined in considerable detail the many ways in which the combination of inadequate product information, lack of budgeting, discriminatory interest charges, and perpetual indebtedness render the poverty stricken even poorer through inefficient purchasing behaviour. Very little effort was expended either in the briefs themselves or in the testimony before the Committee in the direction of casting the role of their particular department or function within the larger framework of a consistent interrelated approach to poverty. Senator Croll expressed this well when he stated "our experience has been that we find the people who are appearing before us are working within their limited scope; everyone is working in a self-contained little department". (28)

The Manpower and Immigration brief came the closest to setting up a general approach to solving poverty and then proceeded to develop the department's role in the scheme. Another brief that we found to be very constructive, given our earlier discussion of the causes of poverty, was that by Mr. Tom Kent, Deputy Minister of the Department of Regional Economic Expansion. His message was very direct: no approach to poverty from his or any other department would have much impact unless the economy

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Senate Proceedings . . . . ., 1st Session, 28th Parliament,  
p. 300.

was running at high levels of employment.<sup>(29)</sup> Further on the issue of the relationship of unemployment and poverty it is very disappointing that neither the Bank of Canada nor the Department of Finance testified before the Senate Committee. It would have been of great interest both to the Committee and to the Canadian public to obtain first hand not only evidence relating to the likely impact of various fiscal and monetary policies on poverty, but as well as an assessment of the role that considerations relating to poverty play in deciding upon the overall policy mix. We shall have more to say on the inflation-unemployment-poverty relationship in part IV.

From the point of view of the overall purpose of the Hearings the most important federal brief was that by the Department of Health and Welfare. It presented a fairly detailed analysis of all the existing welfare programs including some valuable data broken down by province on the operation of the Canada Assistance Plan. But the brief contained little in the way of new alternatives to the existing system. In the testimony the Committee pursued the issue of a guaranteed annual income but only in very general terms. No questions were asked or information forwarded relating to the specifics (such as the

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More specifically "the fundamental need is that we should find ways for the Canadian Economy to operate as consistently as possible in providing high levels of employment across the country. That will not in itself end poverty. But it is essential to creating the conditions in which poverty can be overcome." Senate Proceedings .... 2nd Session, 28th Parliament, No. 11, p. II.36.

costing and overall design) of alternative versions of guaranteed annual income schemes. Nor was the important issue relating to the discussion of powers in the welfare field between the provinces and the federal government even broached, let alone discussed. Like so many other witnesses the Department of Health and Welfare restricted itself principally to issues relating to the day to day operation of its present programs. This was especially evident in the list of approximately one hundred research projects that it had or was currently funding: except for one or two all of these studies relate to specific problems relating to the operations of its various programs. (30)

For a department that has been spending billions of dollars on welfare annually and was, at the time of the Hearings, in the process of preparing a White Paper on the Welfare system this lack of research into and evaluation of the existing welfare system coupled with the absence of any creative alternatives for the future course of welfare legislation in Canada is very disturbing, to say the least.

#### Provincial Briefs

Apart from Quebec, British Columbia and Alberta, all the provincial departments of welfare or their equivalent appeared before the Senate Committee. These provincial briefs were ex-

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(30) The Department recognizes this deficiency and suggests that part of the problem lies in the fact that "there has not existed a great interest in research on poverty on the part of social scientists." Senate Proceedings....., 2nd Session, 28th Parliament, No. 32, p. 23.127.



tremely valuable for several reasons. Firstly, each province outlined the approach it took in implementing the Canada Assistance Plan. The differences were quite substantial both in terms of dollar amounts given to families in like situations (see Table 1) and also in terms of the particular characteristics of each scheme, e.g. who qualifies, how earned income is treated for persons receiving social assistance, what appeal procedures are available, etc. Secondly, all provinces were in agreement that the present system leaves plenty to be desired, especially in the area of providing work incentives for welfare recipients. But the agreement quickly disappears when it comes to suggesting alternatives to the present structure. Newfoundland, for example, wants the 50-50 sharing under the Canada Assistance Plan to be extended "to assisting provincial treasuries to finance crown corporations charged with hiring from among social assistance recipients applicants for work on a selected list of projects which would be reviewed from time to time." (31) Nova Scotia fears that a guaranteed annual income run by Ottawa would be set at an inadequate level and therefore lead to even more duplication within, instead of rationalization of, the system. In its place it argues for a modification of the CAP for the Atlantic region with the federal government paying 70% of the cost rather than the present 50-50 sharing, because the Atlantic region has

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(31) Senate Proceedings....., 2nd Session, 28th Parliament,  
No. 38, p. 38.29.

proportionally far greater poverty than the rest of Canada. Manitoba takes just the opposing position. They argue in favour of separating the financial assistance and social services aspects of welfare because

- a) not all persons requiring financial assistance are in need of social assistance; and
- b) social services are of minimum benefit if, as under the present system, the welfare recipient is compelled to receive them.

In addition, on the financial assistance side it would welcome an Ottawa-run guaranteed annual income of the negative income-tax variety.<sup>(32)</sup> Ontario shares a middle course on NIT: while not ruling it out for the future it presents several tables and charts (which we feel are quite misleading) which purport to exemplify the defects that would exist if an NIT scheme were adopted now.

Perhaps the most important role of the provincial briefs was to bring to the surface, implicitly if not explicitly, the crucial question of jurisdiction in the welfare area. Manitoba appears to be quite willing to live with a situation where the federal government would provide the bulk of the financial assistance relating to welfare and Manitoba would provide the necessary social services and supplementary financial assistance where needed. Our impression is that some of the other provinces

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Senate Proceedings....., 3rd Session, 28th Parliament, No. 9, pp. 9.32 and 9.35.

would not look kindly upon this proposal because they feel that the cut-back in funds would endanger the effective functioning of the social services they now provide. All provinces appearing before the Committee argue strongly for federal-provincial cooperation in this area and some call for a complete review of not only income-maintenance but as well the entire question of federal-provincial tax sharing because of the obvious interrelationship between the two. (32a)

Ontario goes even further. After presenting evidence relating to the inefficiency of family allowances in terms of helping all families rather than those who are poor or near poor, it argues for a more selective family allowance program which could be achieved either by

- a) making the benefits income tested: i.e. different rates per child depending on the income of the family. (Note that this is essentially the same as the proposal in the White Paper on Income Security.)
- b) coordinating family allowances with the tax system by increasing the level of family allowances and at the same time decreasing the exemption level for children for purposes of income tax. (Note (33) that this is essentially a "refundable tax credit".)

Ontario goes on to suggest that there is some doubt that the federal government has the constitutional authority to make selective payments to a specific class or classes of persons. (34)

Therefore, it suggests that the appropriate solution is to

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(32a) British Columbia, although it did not appear before the Committee, is probably the most outspoken on this point. For example, recently Premier W. A. C. Bennett has called for direct federal payments to poor Canadians to replace the present provincial tax equalization scheme. (Constitutional Conference, Victoria, B.C., June 14, 1971.)

(33) Adapted from Senate Proceedings..., 2nd Session, 28th Parliament, No. 43, p. 43.74.

(34) Ibid., pp. 43.74 - 43.75.

transfer funds currently expended under the family allowances program to the provinces which do have the constitutional authority to distribute them selectively. However, while we feel that there may be some constitutional problems relating to a) above, plan b) is not likely to run counter to the powers granted to the federal government by the constitution because current exemption levels of the tax system and changes therein affect persons differently according to their income class and these have not been challenged on their constitutionality. More importantly, the introduction of family allowances and the lowering of the exemptions for dependents has never been challenged in the courts.

This raises two interesting issues. First of all, whether or not the federal government has the authority to take over from the provinces some of the responsibility for welfare may depend crucially upon the manner in which Ottawa designs its income security program. Our feeling is that Ottawa is on the most solid ground constitutionally to usurp current provincial responsibility if it works through the tax system. We suggest further that the provincial arguments against an NIT scheme reflect this possibility of losing some of their current responsibility in the social assistance area. Left alone to pursue their own policies they would probably move toward provincially designed NIT schemes. The second issue relates to the necessity of including in any discussion of poverty both the constitutional question and the system of taxation in Canada. By carefully

steering clear from such issues wherever possible the Senate Committee itself was guilty of failing to place poverty in the appropriate conceptual framework. This is an appropriate point to look at the views of the Senate Committee itself.

### The View of the Senate Committee

Apart from what one can read into the statements, questions, attitudes and reactions of the various members of the Senate Committee during the proceedings concerning their own views on poverty, on two separate occasions Senator Croll reported to the Senate on the progress being made by the Hearings. In attempting to capture the Committee's views about poverty and in the process provide some inkling as to the likely recommendations that will appear in the final report, we shall rely almost exclusively on these two documents, known as the Interim Report <sup>(35)</sup> and Progress Report.<sup>(36)</sup> Indeed, wherever possible we shall quote directly from them.

#### From the Interim Report:

"The final report can and must lead to the most progressive social advancement in the second part of the century. To do that it must break new ground and it must reach for new horizons..... The present welfare system is a mess. Billions of dollars have been spent on social services which

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(35) Senate Proceedings....., 2nd Session, 28th Parliament, No. 53, Monday, July 6, 1970, henceforth referred to as the Interim Report.

(36) Senate Proceedings..... No. 12, 3rd Session, 28th Parliament, November 12, 1960, henceforth referred to as the Progress Report.

are failing their clients. There is an almost total loss of confidence in the system. Program has been piled upon program without evaluation to determine whether they are meeting the original objectives, or whether the original objectives are still valid." (37)

Two of the most serious problems in Senator Croll's view are the failure of the present system to present, for the working poor, a meaningful alternative to welfare and the differences in support levels for recipients across the country. With respect to the latter he cites the example of a family in Hull and a family in Ottawa, both having the same number of children and paying approximately the same rent. The Ottawa family receives \$100 more in welfare a month than the Hull family. "That unevenness persists across the whole country and it is one of the evils that persists within the system." (38) In addition:

"There is unfair financial burden upon the poorer provinces. The rich provinces can take advantage of a 50-50 deal and put up dollar for dollar under the Canada Assistance Act, and use some of their equalization money for the building of bridges..... while the poor provinces are unable to do that. The result is that in the final analysis the beneficiaries of the Canada Assistance Act are the treasuries of the rich provinces. The poor provinces can give their people very little. There is an unfairness about it." (39)

In the Progress Report the current welfare system came in for even more criticism:

"Those appearing before us were unanimous in the view that the public welfare system has broken down,

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(37) Interim Report, p. 53.8

(38) Ibid, p. 53.8

(39) Ibid, p. 53.8

mired in bureaucracy and suffering from lack of leadership. It has failed in its ability to achieve humanitarian ends, and the public capacity to finance it in the present form is in question. The welfare system has failed for another reason: that is because it was considered as a supplement to the economic system to provide for marginal people. It was never designed to supply basic needs for a large number of Canadians.... The welfare system is an impossible mess .... it is beyond reform.... we have been considering this situation in committee and so far as I am concerned I think the only solution is to scrap it." (40)

But what is the alternative? Senator Croll is equally forceful in presenting solutions:

"We could actually repeal every one of our social measures, with the exception of the Canada Assistance Act, the Canada Pension Plan and the unemployment insurance plan, and meet every requirement under the basic definition of 'need' in the Canada Assistance Act, modifying it to some slight extent." (41)

Close reading of this proposal leaves many questions unanswered. But Senator Croll clarifies this alternative considerably by the following statements:

"The alternative to the present system is adequate basic income, a national minimum level of income. What do the 4½ million working poor need?.... They need employment. When they cannot get it, the alternative is income. They need services and incentives to continue to work. What is more the provision of income should come from the federal government, and the provision of service from the provincial government. We have a vehicle for delivery of services in the Canada Assistance Act. Income and services must be completely and totally separated." (42)

This is a remarkable statement. As we interpret it, especially those sections we have underlined, it implies that the Committee is in favour of a federally run guaranteed annual income,

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(40) Progress Report, p. 12.6

(41) Progress Report, p. 12.7. The contractual nature of the CPP and the unemployment insurance plan prohibit their being repealed.

(42) Progress Report, p. 12.8. Underlining is not in the original.

presumably of the negative income tax type given the Senator's concern for the maintaining of incentive to work. The provinces will still provide social services under the CAP. Naturally, this is a very general statement and certainly does not provide much of a guideline as to the details of such a proposition. Nevertheless, it does represent a considerable break with the current welfare system. It will be interesting indeed to see to what extent this alternative forms the basis of the Committee's final report.

#### The Role of the Economist in the Senate Hearings

Economists such as Milton Friedman and James Tobin have played an important role in originating and popularizing, respectively, the concept of negative income taxes. Furthermore, one can cite a rather long list of economists who have made contributions in the area of income distribution in general and poverty in particular. Yet of the over two-hundred briefs presented to the Senate Committee not one, to the best of our knowledge, was by a university economist. Nor was a university economist a member of any group who appeared before the Senate. And except for a temporary consulting position by one member of the teaching profession, the research group for Senator Croll also had no representation from academic economics. This is a dismal track record indeed. Compare it to the current Senate Hearings on National Finance where a quota had to be placed on the number of economists wishing to testify. Compare it to the research group of the Prices and Incomes Commission where academics



through the whole range from graduate student to full professor can be found in abundance. There are several good explanations why this phenomenon occurred. But it is important that we do not exclude from the list of explanations the fact that the academic reward system simply does not place enough recognition on policy analysis in the socio-economic areas nor does it recognize as professional the journals in which such analysis is most likely to appear.

Would the presence of academic economists have much of a contribution to the Hearings? I think the answer must be yes. Our training is such that we would have cast poverty into a more general framework and focussed our analysis of the present or any proposed welfare system on the global as well as partial equilibrium aspects. We would have brought the theory of public goods and interprovincial spillovers into the discussion of whether the federal or provincial government should run the welfare system. Most importantly, we would have played up the resource allocation implications of any proposed changes in the welfare system. It is significant to note that virtually none of the briefs mentioned internal migration, let alone attempted to look at the role that migration might play in the solution to poverty, both at the regional and individual level, etc. etc. But the fact remains, we weren't there!

#### The Role of the Senate Hearings as a Research Body

Senate Hearings can and often do play an important part in the Canadian decision making process. Because they can call

in expert witnesses and subject them to questioning and because the press normally covers these hearings very well, the Senate Hearings are ideally suited to play an investigative and informative role. And one does not have to go back very far in time to see that the results of Senate Hearings can be influential in framing legislation: the Senate report on unemployment was an important factor in the formation of the Department of Manpower and Immigration, and the Hearings on the aged led to the enacting of the Guaranteed Income Supplement (GIS).<sup>(43)</sup> In all likelihood the Senate Hearings on Poverty will play a constructive role in influencing future legislation in the welfare field. However, we feel that while the Poverty Hearings were invaluable in educating the Canadian public on all aspects of Canadian poverty, there are some aspects relating to the poverty question which are not well suited to be handled in the context of a Senate Investigation. First of all, when put in its proper perspective, the approach to the poverty question embraces not only the entire income security area but as well the full complement of other economic policies such as monetary and fiscal policy, taxation policy, tariffs, housing, etc. In addition it cannot be dissociated from the whole area of federal-provincial relations. We feel that the Senate is too political an institution to give the appropriate degree of independent investigation that the subject warrants. Secondly, one of the chief problems in investigating poverty is the lack of information relating to the

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<sup>(43)</sup> We should point out that both Hearings cited above were chaired by Senator Croll.

subject. This lack of information relates both to the studies of various aspects of poverty and its solutions, but more basically to the lack of accessible data in the poverty area. Therefore to conduct effective analyses on poverty requires a very substantial research effort - research of a type not well suited to a Senate Committee.<sup>(44)</sup> Any future public research in this area should be undertaken by a group of the nature of a Federal-Provincial Task Force on Poverty.

We now turn to an analysis of federal policies toward poverty.

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(44) This is not meant to slight the research group of the Poverty Committee. Despite their small size they appear to have produced a substantial amount of valuable research in the area. We reiterate our earlier hope that the Senate Committee make this research public.

#### IV CURRENT FEDERAL POLICY AND POVERTY

##### A. Recent Proposals in the Income Security Field

Up to this point in the paper we have (a) presented an overview of poverty including a section on the causes of poverty; (b) reflected our bias in arguing for a negative income tax as a solution to ameliorating the income deficiencies associated with poverty; (c) presented a very brief outline of existing government programs in the poverty-related areas; and (d) presented a résumé of some of the major issues arising from the Senate Proceedings on poverty. At this junction it is appropriate to broaden our perspective a bit and relate the foregoing analyses to current federal and provincial policies as they pertain to poverty. The present section focusses only at the federal level and deals in turn with two recent white papers on unemployment insurance and welfare policy and then the broader issue of the priority that eradication of poverty attains in the overall mix of federal economic policies.

The role that an unemployment insurance scheme might be expected to play in the set of programs in the income security field depends to a large extent on the accompanying legislation that exists in the welfare area. Consider first the case where Canada would have a guaranteed annual income of the negative income tax variety. Unlike some observers, we would still see an important role for unemployment insurance even within this

context. However, its role would likely be confined almost solely to income protection, i.e. it would be primarily an insurance scheme rather than a welfare scheme. On the other hand, if there exists an inadequate set of complementary legislation in the welfare area one could make more of a case for using unemployment insurance as an instrument in the income support (i.e. welfare) area as well.

When the White Paper on Unemployment Insurance (Unemployment Insurance in the 70s) was made public there was general agreement that the forthcoming position paper on social security would move welfare policies more towards a guaranteed approach or at the very least that some sort of a GAI annual income/or negative income tax would surely be the cornerstone of Canada's welfare legislation in the not-too-distant future. Accordingly, one would have expected that the unemployment insurance proposals would be such that they would pave the way for a more rationalized approach to the entire income security area. Such was not the case, however. The White Paper takes unemployment insurance far into the income support or welfare field from its traditional income protection role. The increased role for federal financing, the much-eased eligibility requirements for benefit qualification, the severing of the direct relationship between previously covered employment and the length of benefit authorization, and most importantly the special benefits for depressed areas all serve to move the proposed unemployment insurance scheme well into the welfare area and make it very

difficult to integrate with any comprehensive approach to welfare.<sup>(45)</sup> One gets the distinct impression that the federal government desired to pump extra funds into the depressed areas and chose unemployment insurance as the means for the transfer because it was readily available and perhaps more importantly because it represented a constitutionally acceptable vehicle for the transfer. However, the appropriate question to ask is: given that the government wished to transfer more funds to the high unemployment areas, is the unemployment insurance program the most appropriate instrument for carrying out the transfer? In any system characterized by highly inter-related programs, it appears to us that attempting to use any one means to accomplish a multitude of ends runs into the problem of creating severe spillover effects. We would argue that such will be the case with the U.I.C. proposals. They run the risk of creating substantial distortions in resource allocation. For example, the special regional benefits will tend to encourage reverse migration and the 100% tax rate on earnings above 25% of benefits will have the effect of reducing the incentive to work on the part of the benefit recipient. Introduced within the more appropriate context of a negative income tax scheme these same transfers would have substantially ameliorated implications for resource allocation.

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For further analysis of the proposed legislation (focussing both on desirable and undesirable aspects), see T.J. Courchene "Unemployment Insurance in Canada: Some implications of the Present System and an Evaluation of the White Paper Proposals", Research Report 7025, Department of Economics, University of Western Ontario, October, 1970.

Turning to the White Paper on social security (Income Security for Canadians) our first response is that it is a severe disappointment both in terms of what it has to contribute in the way of a meaningful solution to the poverty question and in terms of what one might have expected, given the overwhelming evidence in the Senate Hearings to the effect that the present approach to Welfare in Canada is a failure. Without getting into the details of the proposals, the essential feature of the White Paper is to provide much increased benefits for those persons who are not actively in the labour force, e.g. the elderly and the disabled. The altering of the family allowance payments so that they taper off as family income rises does not really move very far in the direction of ameliorating the plight of working poor.<sup>(46)</sup> This is especially the case if the provincial welfare agencies take this increase into account in the assessment of needs under the Canada Assistance Plan. Oddly enough, there appears to have developed an interesting division of labour between unemployment insurance and the health and welfare department. Health and Welfare appears to be focussing on the welfare of citizens who are essentially outside the labour force while unemployment insurance is attempting through its White Paper proposals to provide relief to the working poor. In terms of our earlier analysis of the causes and solutions for

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(46) Recall that Ontario has suggested that selective family allowance payments by the federal government may be overstepping Ottawa's constitutional authority in this area.

poverty this division of labour is unfortunate indeed. The types of relief to the working poor through unemployment insurance schemes are simply not appropriate, and on the question of work incentives actually run counter to what we would consider to be appropriate policies.

Before taking leave of the Health and Welfare White Paper it is appropriate to point out that in many places it comes across as a poorly conceived document. The clearest example of this is the "notch" problem encountered by the new family allowance proposals. For a family with four children earning \$10,000 a year, the family allowance payments amount to \$240. The reward for earning an extra dollar of income is the loss of the entire \$240! In addition, in discussing the pros and cons of a negative income tax the White Paper argues that most of the existing programs can not be superceded by NIT because they are of a contractual nature. They then proceed to suggest that the manner in which these programs would be integrated with NIT would be to deduct from the NIT payments to poor persons any income they had coming from these contractual programs, (p.25). But this seems to us to be the wrong approach. Income coming into a family from a contractual source such as Veterans' Pensions should be treated as other income, i.e. as "earned income", and the family unit wouldlose its NIT benefits only to the extent of 50% of this additional income (assuming that 50% is the tax on additional income under the NIT scheme).



In summary, then, the proposed federal legislation does little in the way of meaningfully attacking the most important source of poverty in the country, namely the working poor. This is the most important poverty group because numerically it is the largest group, and because the economic costs in terms of lost output are far greater for this group. The White Paper on income security practically ignores this group entirely, while the Unemployment Insurance White Paper provides considerable help to those of the working poor who are unemployed, but it is not the most appropriate vehicle for providing assistance to this group. In essence, then, Canada appears headed in the direction of maintaining its present patchwork and non-integrated approach to income security.

B. Federal Priorities and Poverty

On a broader scale it is useful to ask what priority in overall policy formulation is assigned to goal of eliminating poverty. One fact that stands out quite clearly is that the federal government is far more interested in the income distribution of the Canadian provinces than it is with the income distribution of the Canadian people. And perhaps this is appropriate since the Constitution assigns to the provinces the responsibility for welfare. Nevertheless, as we have seen above, the elaborate provincial tax equalization scheme ensures that each province has access to tax revenues equivalent to the

Canadian average tax rate times the Canadian average tax base. In addition, the Department of Regional Economic Expansion, consolidating into this new department the activities of agencies like ARDA, FRED, ADA and ADB, is now mounting a spirited attack on regional income differentials. In terms of its long-run impact on the incomes of individual Canadians residing in the poorer provinces this approach may indeed make an important contribution to the poverty problem. But in the shorter run it is not at all clear that the result of these programs is to alter the income distribution in favour of the poverty group. Rather it may be that certain groups like industrial engineers may be among those who benefit most (as appears to be the case in New Brunswick, for example, where this group has annual incomes above the Canadian average). The point is simply that in assigning priorities between achieving more equality among Canadian individuals or among Canadian provinces, the federal government has opted for the latter. (47)

Perhaps the most controversial set of federal priorities is that reflected in Ottawa's attitude toward the unemployment-inflation issue. Canada, relative to other industrialized non-communist countries, has on the whole had higher unemployment

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(47) The question of priorities and costs in terms of lost national income is explored somewhat further elsewhere. See. T.J. Courchene "The Role of the Provinces in Regional Economic Expansion", paper presented to the Conference on Rural and Regional Development Issues, Winnipeg, November, 1970.

rates and lower inflation rates.<sup>(48)</sup> We have argued above that unemployment represents a real cost in terms of lost output. Furthermore, it is a cost in terms of foregone earnings that is borne primarily by the poor. On the other hand, inflation, of and by itself, does not represent an economic cost. Rather it is a transfer from one group of persons to another group (e.g. from creditors to debtors). It can be considered as an important economic cost only if one expects it to get out of hand and lead eventually to large-scale unemployment. Presumably the willingness of Ottawa to trade off so much unemployment in order to combat inflation reflects a two-fold belief:

- a) left unattended, inflation will spiral ever upward; and
- b) Canada can have a large say about the course of price behaviour independent of the international community.

We take issue with both these beliefs because we feel that within the limits of what one might call reasonable alternative policy mixes, there is little chance of Canadian inflation getting out of hand if the international (essentially U.S.) inflation rate does not get out of hand. Essentially this implies that whereas there does exist a trade-off between unemployment and inflation for a given rate of change in foreign prices the most important

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(48) Brief to the Senate Meetings presented by the Department of Manpower and Immigration, op. cit., p.367.

determinant of the relationship between the rate of domestic inflation and the level of unemployment over any medium term period is the rate of foreign inflation. If one accepts this point of view then there is little justification for the current unemployment-inflation priority pursued by Ottawa. In addition, if one elevates the eradication of poverty to the level of a national goal then there is absolutely no justification at all for assigning such a high priority to curtailing inflation because the poor are affected far more by unemployment than they are by inflation.

It is worth dwelling on this point somewhat further. From time to time Ottawa has argued that inflation places a heavy burden on the poor people and is one of the major causes of poverty. The recent evidence in both Canada and the U.S.A. simply does not bear this out. Inflation may inflict some toll on the poor but "the most obvious cost in terms of poverty that is involved in any particular combination of inflation and unemployment is that of unemployment." (49) On this issue Arthur Okun is very clear:

"[These] substantive results reinforce other important findings from Wisconsin's Institute for Research on Poverty that inflation does not harm the poor as a group .... Inflation is cruel because of horizontal (not vertical) inequity. Indeed it

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(49)

Ibid. p.368

seems to have a haphazard impact among families within the same income group which outweighs its redistribution impact among groups. For example, welfare recipients and the aged poor may be hurt by inflation even though the predominant effect on the poor is that of improved job opportunities. . . . . These facts should, once and for all, stem the temptation of the political economists to invoke the plight of the poor as one of the reasons for wanting price stability . . . . And they should remind us that, when the nation is deliberately pursuing a policy of economic slowdown in order to achieve price stability, it has a special obligation to intensify other efforts to relieve the plight of the poor." (50)

In summary we assert that eradication of poverty has not assumed a very important role in the nation's preference function.

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(50) Arthur M. Okun, discussant of papers on the "Dynamics of Income Distribution", American Economic Review, Papers and Proceedings, May 1970, p. 297.

V. Current Provincial Policies:

The Castonguay-Nepveu Report

Quebec recently made public parts of a massive study, La Commission d'enquête sur la Santé et le Bien-être social, which was released under the auspices of M. Claude Castonguay, Ministre des Affaires sociales. This report (which we will refer to as the Castonguay-Nepveu Report, after its two Commissioners) is a very impressive document outlining wide-ranging and imaginative new proposals intended to coordinate and rationalize Quebec's health and welfare services. Our interest for purposes of this paper relates only to the welfare aspects and even more specifically to the General Social Allowance Plan (GSAP). First and foremost, GSAP is a program designed to achieve the objective of a guaranteed annual income and the philosophy underlying GSAP is not unlike that underlying the various NIT schemes discussed above. However, it also provides a framework into which all existing Quebec and Canadian income security plans can be integrated. The most novel element in the scheme is the manner in which it provides for the very difficult problem of how to adopt a guaranteed annual income plan to allow an income high enough to permit a decent living standard for those unable to participate in the labour force and yet still maintain an incentive to work for persons in the labour force. To handle this, GSAP contains two allowance formulas, which following the unofficial English translation

of the document, we shall refer to as Stage I and Stage II. Stage II is the full poverty line guarantee and as shown in Column (3) of Table 2<sup>(51)</sup>, adopts the Economic Council of Canada minimum level of income as the income guarantee for a single person and two adults. The allowance for each child set at \$405 per child in Table 2. The tax rate on income earned for persons covered by Stage II is 100%, i.e. for every dollar earned the social allowance is reduced by a dollar. Since most persons covered by Stage II will be out of the labour force this confiscatory tax is justified. The Stage I allowance is set at 60% of the Stage II allowances for single persons and two-adult families. For each child an allowance of \$405 is added to the minimum allowance. These figures are in column (2) of Table 2. The Stage I tax formula is such that the social allowance is reduced by one third of assessed (essentially, earned) income when this is below \$2,000 and by 55% of assessed income beyond \$2,000.

Chart 2 presents a graphical analysis of the two stages of GSAP for two family sizes - a family of three and a family of four. Assessed income is measured along the horizontal axis

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(51) This is an adaptation of Table IX.1 of the Castonguay-Nepveu Report. We must point out that our Table differs somewhat from that in the Report because there was an inconsistency in the translation at least between the text and the Table IX.1 relating to the allowances paid to children under Stage II. While we may be in error regarding the details of the scheme, this will not affect our understanding of GSAP.

TABLE 2

Amounts of social allowances under GSAP for 1971, compared to the minimum income levels of the Economic Council of Canada

Size of Family	(1) Minimum income levels (Economic Council of Canada)*	(2) Maximum GSAP allowance first stage	(3) Maximum GSAP allowance second stage **	(4) Break-even point for Stage I
Single Person	\$ 2,045	\$ 1,227	\$ 2,045	\$ 3,018
Two Adults	\$ 3,408	\$ 2,045	\$ 3,408	\$ 4,505
2 adults, 1 child	\$ 4,089	\$ 2,450	\$ 3,813	\$ 5,242
2 adults, 2 children	\$ 4,770	\$ 2,855	\$ 4,218	\$ 5,987
2 adults, 3 children	\$ 5,451	\$ 3,260	\$ 4,623	\$ 6,714
2 adults, 4 children	\$ 6,132	\$ 3,665	\$ 5,028	\$ 7,450
2 adults, 5 children	\$ 6,713	\$ 4,070	\$ 5,433	\$ 8,186

\* 1961 Economic Council figures adjusted for cost of living.

\*\* GSAP also contains proposals to bring the Stage II allowance up to the Economic Council minimum income level. These were deleted from this table.

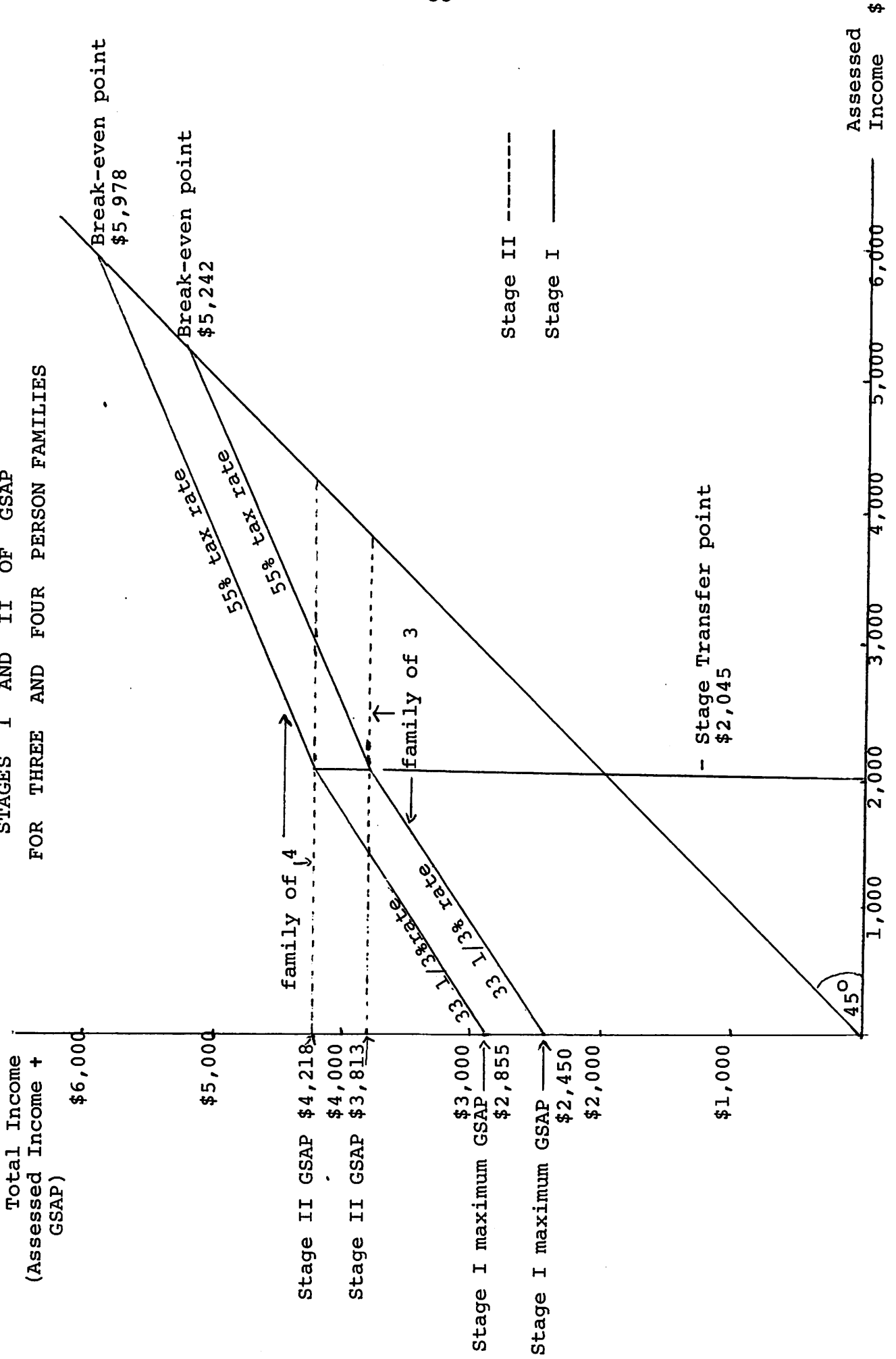
TAX RATE on Stage I = 33 1/3% on first \$2,000 of Assessed.  
55% thereafter until social allowance is exhausted.

TAX RATE on Stage II = 100%.



CHART 2

STAGES I AND II OF GSAP  
FOR THREE AND FOUR PERSON FAMILIES



and total income (assessed income plus the social allowance) is measured vertically. Dashed lines refer to Stage II while solid lines refer to Stage I. At any level of assessed income the vertical distance between the 45° line and the stage lines represents the social allowances (or negative taxes) paid to the respective families. Naturally both dashed lines are horizontal at the maximum GSAP allowance level - \$3,813 and \$4,218 for a family of three and four persons respectively - reflecting a 100% tax on any assessed income. For the Stage I lines the intercept represents the maximum GSAP allowance. Up to levels of assessed income of \$2,000 the slope of any Stage I line is 2/3, i.e. the tax rate on assessed income is 33 1/3%. Thereafter, the slope is 9/20, i.e. the tax rate on assessed income is 55%. For a given family size the Stage I line crosses the Stage II line at a level of assessed income equal to 1½ times the difference (reflecting the 33 1/3% tax) between the maximum guarantees of the two stages. According to our interpretation of GSAP, as reflected in Table 2, this difference is constant for families of 2 or more persons, equalling \$1,363.<sup>(52)</sup> Therefore, the value of assessed income at which it pays to be covered under Stage I rather than Stage II is \$1,363 x 3/2 or \$2,045. This is depicted in Chart 2 by a vertical line at \$2,045. The

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(52) In Chapter V of the Castonguay-Nepveu Report when the GSAP plan is first outlined this difference also remains constant but at a lower dollar value because the poverty lines are the 1961 Economic Council estimates, unadjusted for cost-of-living changes. In Chapter IX where they illustrate the workings of GSAP for 1971 there appears to be a tendency for the dollar difference between the stages to widen with family size. In terms of what follows, this implies that the "stage transfer point" rises with family size, rather than remaining constant as we depict in Chart 2.

Castonguay-Nepveu Report refers to this point as the "stage transfer point".

Families are essentially free to choose whether they will opt for stage I or stage II and they have the flexibility of moving back and forth between the stages as their income situation dictates. The details relating to how this switching is to take place are quite complicated and will not be treated here. GSAP, therefore, provides an extremely imaginative solution to the problem existing in the current system as exemplified in Table I above where work at the minimum wage level was an attractive alternative to small families but not to large families because social assistance varies with family size. Under GSAP, if the family expects to be able to earn more than \$2,045 per year over an extended period it will pay them to opt for Stage I. Even though assessed income is defined net of the personal income tax it would still pay families expecting to be fully employed at or above the minimum wage level in Quebec to choose to be covered under Stage I.

Some of the more important details of the plan are as follows:

- the basic unit for GSAP is the family
- payments under GSAP will be at two-week intervals
- assessed income is essentially disposable income so that it is net of personal income taxes and other compulsory contributions or costs related to employment such as contributions to social insurance plans and union and professional dues.

This implies that families can at one and the same time be paying income taxes and receiving GSAP payments, thus providing automatic integration with the income tax system.

- income from assets is included in assessed income, and after a generous allowance, the assets themselves are included in assessed income.
- the social allowances paid under GSAP will be reduced by the full amount of benefits paid under other plans to offset an interruption in income or to provide a subsistence income, e.g. veterans' pensions, workmen's compensation, and with some modifications, unemployment insurance benefits. This ensures that GSAP will be integrated with all existing plans in social insurance areas. (53)
- family allowances are to be maintained because they are included as part of the \$405 paid per child under GSAP.

Two other recommendations are especially interesting, first, that GSAP be financed out of the Quebec government's general revenue and second, that in the future social insurance plans like the Canadian unemployment insurance scheme be limited to serving their direct purposes and that all governments refrain from making a permanent contribution to the financing of these social insurance plans, and instead divert all their contributions to other types of social benefits. We shall comment on these features later.

What is the likely impact of the Castonguay-Nepveu Report? For several reasons we feel that it is by far the most significant

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(53) Our earlier comment on how to treat income from insurance - type plans still seems valid: we would prefer to see benefits under these schemes treated as assessed income rather than being perfect substitutes for the social allowances, since in affect they have been "earned".

public document in the welfare area today. First of all its timing could not have been better. The Canadian people have just been presented with two government White Papers in the income security area and the Senate is winding up several years of investigation on poverty. But more importantly it presents an integrated approach to ameliorating the plight of the poor, integrated in the sense that it is able to deal with both the working poor via Stage I and the families outside the labour force via Stage II and integrated also in the sense that it rationalizes not only the whole social welfare system but as well permits coordination with existing social insurance schemes. One effect of the Castonguay-Nepveu Report will surely be to highlight the piecemeal and fragmented approach to income security embodied in the recent federal White Papers. Implicitly it also challenges the new unemployment insurance proposals which are moving unemployment insurance into the welfare area by arguing that within the context of an integrated guaranteed income scheme unemployment insurance should revert to its original goal of insuring against temporary decreases in income and further that it should not be publicly financed. Whether or not one agrees with all the details of GSAP or feels that the costs of such a program will be acceptable to Canadians it is surely true it will play a very important role in future discussions and legislation in social welfare areas.

But there is another important aspect to the Castonguay-Nepveu Report. By producing such a well integrated and compre-

prehensive solution to the poverty problem and a solution that calls for funding out of Quebec's general revenue it has given Quebec the initiative in the jurisdictional battle of who should be responsible for providing for a guaranteed annual income - the provinces or the federal government. If the Canadian government does not come up with some constructive counter proposal <sup>(54)</sup> it could very well be that Quebec will enact some version of GSAP, perhaps on a less grandiose scale if federal assistance in funding is not forthcoming. Then Canada must face the possibility, as the other provinces probably follow Quebec's lead, of having ten different types of negative-income-tax schemes. Our own opinion is that the recommendations of the Senate Committee embodied in the Progress Report are to be preferred, namely that the funding of a guaranteed income be done federally and that the provision of social services be left to the provinces. There are several advantages to having a federally run guaranteed annual income. First of all, by having a universal plan, the natural mobility of labour within the country would be facilitated. With ten provincially run GSAP-type schemes things like residence requirements, the manner in which the various schemes mesh with other existing federal legislation in the income security area as well as with the federal tax system, and the levels of the guarantee would probably differ from province to province and

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(54) To argue against the Castonguay-Nepveu Report solely on the basis of its cost to Canadians may be constructive but it is not an alternative.

serve to impede as well as distort migration flows. (55) In addition, a program like GSAP in combination with the rest of the income security legislation represents only one aspect of an integrated approach to the poverty problem. Related policies like the various retraining and relocation programs of the Manpower and Immigration Department, the regional industrial incentive policies of DREE and the overall monetary and fiscal policy must be coordinated with income security policies and this coordination is more easily attained if the federal government has some say in the running of any NIT scheme. However, it would still probably be possible to achieve the minimum degree of coordination necessary with a universally designed scheme run largely or entirely by the provinces. This leads us to the most important argument for having a federal voice in an guaranteed income plan: a negative income tax integrated fully with the positive tax system provides a very convenient instrument for a stabilization policy. Loss of control of the negative range to the provinces would affectively emasculate federal stabilization policy. Hence, we anxiously await from Ottawa a constructive alternative to the Castonguay-Nepveu Report Hopefully, and this brings us back to the focus of the paper, the final Report of the Senate Committee on Poverty will also take up this challenge.

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(55) This is not to suggest that having a uniform benefit level for an NIT scheme throughout Canada would not also distort migration flows. The whole issue of the relationship between welfare policies and resource mobility deserves far more attention than it has been given in the past.