**A PROPOSAL FOR A GUARANTEED BASIC INCOME BENEFIT IN PRINCE EDWARD ISLAND**

**ESTIMATED NET COST**

The report entitled “*A Proposal for a Guaranteed Basic Income Benefit in Prince Edward Island*” outlines a framework for a guaranteed basic income (GBI) benefit for PEI residents aged 18 to 64. The report estimates the gross cost of such a benefit at $188.6 million. This note explores what would be the net cost in early years of implementation of this new program. The net cost represents funding that would be needed in practice to implement this new program in early years. In doing so, we consider factors such as interactions with other benefits and programs, tax revenues and benefit take-up rates. We also take into consideration that the report cost estimates are prudent—for example, the labour market impacts are on the high side of recent estimates found in the literature. We, therefore, when possible, adjust these estimates to reflect more realistic or likely values. We believe this information is useful for policymakers interested in knowing how much implementing our proposal in PEI would cost in practice.

Before getting into a discussion of the factors that would reduce the gross cost of implementing our GBI proposal in early years, we should be clear about what we are not trying to measure here. It is often argued, as we did in the report, that eliminating poverty should over time lead to positive outcomes for health, crime, education, training, and inter-generational transmission of poverty. This, in turn, should have considerable positive spillovers for the economy and the budgetary position of governments. While we believe there is evidence available on these effects, this is not what we aim at measuring. These effects would take time to materialize and here we are only concerned in assessing the cost of implementing our proposed program for governments in the short term.

So, let’s turn to the factors that would reduce the gross cost identified in the report. We identify six factors, three for which we have a cost reduction estimates and three for which we don’t. Let’s begin with the former.

First, there would be reduction in the cost of income assistance provided by the province for long-term clients, as income assistance would be replaced by the GBI benefit. Simulations presented in the report suggest that $17.4 million of the $33 million paid in income assistance in SPSD/M, or 53%, would be saved or replaced by the GBI. However, most recent PEI public accounts indicate that income assistance expenditure in PEI is $50 million[[1]](#footnote-1). Adjusting for that higher income assistance base and continuing to assume that 53% would be replaced by GBI benefits, increases the savings by $9 million, to $26.4 million.

Second, as shown in Table 1, our estimated labour supply impact is substantially larger than those estimated by Green et al. (2023) and PBO (2021) when the nuclear family is used to administer the benefit. A larger reduction in hours worked leads to larger program cost because it leads to higher GBI expenditure and less tax revenue. In effect, the PBO estimate of the GBI basic cost (before accounting for labour supply impacts) for PEI is $252 million for 2022-23. It increases by $15 million to $267 million when labour supply impacts are accounted for. So, the labour supply impacts are 6% of the GBI basic cost. In contrast, we estimate that the cost associated with the labour supply impacts are 11.1% of the GBI basic cost.[[2]](#footnote-2) If the labour supply impacts were 6% as estimated by the PBO, the GBI cost would be reduced by $8.6 million, from $18.8 million to $10.2 million.[[3]](#footnote-3)

**TABLE 1**

**GBI LABOUR MARKET IMPACTS**

|  |  |  |  |
| --- | --- | --- | --- |
| Study | Maximum Benefit, Single Persons | Family Unit | Reductions in Hours Worked |
| Green et al. (2023) | $20,000 | Nuclear Family | 0.6-1.7% |
| PBO (2021) | $16,989 | Nuclear Family | 1.4% |
| Report (2023) | $19,252 | Nuclear Family | 2.3% |
| Report (2023) | $19,252 | Census Family | 1.6% |

Third, in early implementation years, the cost of the GBI benefit would be reduced as its take-up rate would be less than 100%, reflecting the fact that not all low-income Islanders file their tax form. Using available information, we estimate an early-years take-up rate of 85% for a reduction in the GBI program cost of $28.3 million.[[4]](#footnote-4) While we strongly encourage the Government of PEI to take actions—including some that are suggested in the report[[5]](#footnote-5)—to increase the take-up of the benefit, it remains the case that the cost of the program in early years of implementation would be lower than estimated in the report.

**TABLE 2**

**GBI NET COSTS**

|  |  |
| --- | --- |
| **Estimated Gross GBI Costs (million)** | **$188.6** |
| - Income Assistance Cost Reduction—Scaled to Administrative Data (million) | -$26.4 |
| - Lower Labour Supply Impact—Proportional to PBO Impact (million) | -$8.6 |
| - 85% Take-Up Rate (million) | -$28.3 |
| **Estimated Net GBI Costs (million)** | **$125.3** |

Together these three factors would reduce the GBI cost by $63.3 million, leading to a net cost of $125.3 million (Table 2). Let’s move now to the three factors that would reduce the cost of the GBI for which we have no estimates.[[6]](#footnote-6)

First, providing higher income to low-income families would increase their consumption and the amount of sales taxes they pay.[[7]](#footnote-7) Depending on the approach taken to finance the GBI, this may be somewhat reduced by lower consumption from higher-income families, but the latter effect is likely to be small or nonexistent as empirical evidence would suggest that high-income families would rather reduce their savings.

Second, assuming no changes in eligibility conditions of other income-tested benefits, both provincial and federal, it is expected that benefit payments to middle-income families would be somewhat reduced since their net income would increase, reducing the net cost of the GBI. Simulations performed early in the project with the nuclear family as the administrative unit, suggested a reduction of $10 million in Canada Child Benefit expenditures for the federal government.

Third, the Canada Student Financial Assistance (CSFA) Program—which provides both grants and loans to students from low-income families—is based on an assessment of a student’s needs, which is the difference between the student’s cost and resources. If a GBI benefit were implemented, it would likely lead to a reduction in the assistance received in the form of both grants and loans. For students receiving the GBI benefit, the reduction would occur because either their resources would increase, or their family income would increase beyond the CSFA Program’s low-income thresholds.[[8]](#footnote-8). This would therefore lead to a reduction in Canada Student Financial Assistance Program costs[[9]](#footnote-9), both for the province and the federal government.[[10]](#footnote-10) How large would be that reduction? To answer that question, one would need to carefully analyze data of PEI students receiving Financial Assistance and assess how much less they would receive if the GBI were introduced in PEI[[11]](#footnote-11). We would, however, note that the cost reduction may be non-trivial as youth accounts for 40% of the gross GBI cost, half of which is being accounted for by students.[[12]](#footnote-12)

While it is difficult to assess the magnitude of these three factors for which we have no cost reduction estimates[[13]](#footnote-13), we believe that the net cost of implementing the proposal is likely more in the $100 million range rather than in the $125 million range in Table 2.[[14]](#footnote-14) We consider this estimate to be the best estimate we could have for policymakers interested in implementing our proposal. This also means that the illustrative modest tax increases discussed in section 6 of the report—and fully documented in Annex B of the report—would account for 50% of the cost of the new GBI program.

For completeness, we must also note that the factors that create a wedge between gross and net costs of the GBI benefit may also have a potential impact on the extent to which our proposal would reduce poverty. For example, the lower-than-assumed take-up rate of the benefit in early implementation years would in all likelihood reduce the poverty impacts presented in the report. In contrast, the reduced changes in labour supply would potentially increase the reduction in poverty. Reductions in income assistance expenditures and higher sale tax revenues would have no impact on poverty reduction results presented in the report. Finally, the interaction with other income-tested benefits may reduce the poverty impacts However, the effect is going to be limited given that clawbacks for most of these income-tested benefits occur at income level above the official poverty line.[[15]](#footnote-15)

**REFERENCES**

Boadway, R. et al. (2023). *A Proposal for a Guaranteed Bacic Income Benefit in Prince Edward Island*. [PEI Basic Income Report (gbireport.ca)](https://www.gbireport.ca/)

Green, D. et al. (2023). *Basic Income and Just Society—Policy Choices for Canada’s Social Safety Net*, IRPP. [Basic Income and a Just Society: Policy Choices for Canada’s Social Safety Net (irpp.org)](https://irpp.org/research/basic-income-and-a-just-society-policy-choices-for-canadas-social-safety-net/)

Parliamentary Budget Officer. (2021). *Distributional and Fiscal Analysis of a National Guaranteed Basic Income*. [71f12c2a896208681dcd59ff69f19e1a6c024d00a60c2e2c195f56293f8fff1c (pbo-dpb.ca)](https://distribution-a617274656661637473.pbo-dpb.ca/71f12c2a896208681dcd59ff69f19e1a6c024d00a60c2e2c195f56293f8fff1c)

1. This is not surprising as SPSD/M is well-known to underestimate income assistance expenditures. [↑](#footnote-ref-1)
2. As noted in footnote 29 of the report, we found that the basic cost of our GBI program in PEI is $169.8 million before modelling any labour supply responses. Endogenous labour supply responses increase the cost by $18.8 million for a total cost of $188.6 million. Therefore, the cost associated with the labour supply impacts are 11.1% of the GBI basic cost. [↑](#footnote-ref-2)
3. An alternative approach would be to begin with the cost associated with labour supply impacts in the PBO analysis—$15 million—with the nuclear family as the administrative unit. Then, to reduce this cost by the fall in the percentage reduction in hours worked in our analysis when we used the census family as the administrative unit instead of the nuclear family—a fall of 40%. This reduces the cost of the labour supply impacts in the PBO analysis from $15 million to $10.5 million, broadly in line with the estimate we arrive at with the other approach. [↑](#footnote-ref-3)
4. See section 5.3 of the report for more details. [↑](#footnote-ref-4)
5. See section 4.6 of the report. [↑](#footnote-ref-5)
6. The three factors discussed below would either affect expenditures or revenues of both PEI and federal governments. [↑](#footnote-ref-6)
7. In contrast, our cost estimates do account for the reduction in personal income taxes resulting from the labour supply adjustments triggered by the GBI implementation. [↑](#footnote-ref-7)
8. For dependent students, family income is the parental income while for independent students, it is the students’ own income.  [↑](#footnote-ref-8)
9. Whit respect to the CFSA program costs, the accrual cost of a dollar in loan is 30 cents. [↑](#footnote-ref-9)
10. Another notable feature of the program is that a student contribution is accounted for in calculating student’s resources. This student’s contribution has a maximum level of $3,000. The level of that maximum contribution may have to be reconsidered for students receiving a GBI.

    [↑](#footnote-ref-10)
11. In general, scholarships, fellowships and bursaries are not taxable and not included in total or net income for tax purposes (see [-line-13000-other-income/line-13010-scholarships-fellowships-bursaries-artists-project-grants](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-13000-other-income/line-13010-scholarships-fellowships-bursaries-artists-project-grants-awards.html)). As a result, grants and loans provided by the CSFA program are not included in SPSD/M and our modeling cannot be used alone to assess the interaction between the CSFA program and the GBI benefit. Since they are not included in net income, it also means that in practice both grants and loans received through the CFSA would not affect the eligibility to and amount of GBI, but the GBI would impact the eligibility to and amount of CFSA. [↑](#footnote-ref-11)
12. In this discussion we have assumed that the GBI would not consider the CFSA in determining the GBI eligibility and amounts for students but that the CFSA program would account for GBI benefits students receive when determining students’ eligibility and financial support. An alternative approach would be to account for CFSA received by students when determining their GBI benefits, and not adjusting financial support provided by CFSA. In both cases, similar cost reductions would be achieved relative to the simulation results presented in the report. [↑](#footnote-ref-12)
13. The first two factors—the increase in sales taxes and interactions with other income-tested benefits—could likely be estimated with SPSD/M, while the third factor—the interaction with the CSFA program—would require access to CFSA program data and additional analysis and modelling. [↑](#footnote-ref-13)
14. We should note that interactions between these factors may lead to an underestimation of the net cost. For example, one would want to apply the lower take-up rate adjustments after other adjustments to avoid as much as possible these interactions between factors and double counting of cost reductions. We did our best to qualitatively account for these potential double-counting effects in establishing the estimated net cost of about $100 million.

    [↑](#footnote-ref-14)
15. In the case of the interaction with the Canada Student Financial Assistance program the adjustments to either CFSA or the GBI benefit could be implemented such that students are only better off than they would be without the GBI benefit, hence supporting poverty reduction. [↑](#footnote-ref-15)