Ontario’s basic income pilot will discourage work and

encourage dependency



The Wynne government will launch a three-year “basic income” pilot program beginning this

spring, with the stated goal to “better support vulnerable workers.” In its current form, however,

the program will likely harm the very people it intends to help by discouraging work and

encouraging dependency on government.

The program will provide a single person up to $16,989 per year in tax-free government

transfers plus a maximum $6,000 more for persons with disabilities (couples will get $24,027).

The amount will drop by 50 cents for every extra dollar a recipient earns and by a full dollar if

the additional income comes from the CPP or EI.

It will replace Ontario Works (the province’s main social assistance program) and the Ontario

Disability Support Program, leaving in place the many other federal, provincial and local

government income support programs. And critically, it will not include conditions typically

attached to social assistance programs. For instance, to be eligible for Ontario Works a

recipient generally must be willing to seek work.

An unconditional cash transfer, which essentially pays able-bodied Ontarians not to work,

raises serious concerns about work disincentives. Indeed, the lack of conditions may

encourage dependency on government and discourage people from finding work and

improving their situations. 1/3

Consider a single Ontarian who doesn’t work and therefore earns no income. He or she will

receive the full basic income transfer, which equals 76 per cent of the annual income for a full-

time job at minimum wage (before taxes). This will, of course, discourage some recipients from

working a minimum wage job, causing them to miss out on important work experience that

leads to higher future wages.

Ontario’s own experience underscores the value of work-related conditions for government

transfers. Prior to the province’s social assistance reforms in the 1990s, about one in seven

Ontarians were dependent on social assistance. This not only created a financial cost for

taxpayers, but also meant a significant share of Ontarians depended on government transfers

for their well-being.

In 1995, the government tightened eligibility rules and work-related requirements (such as job

search) in addition to other reforms. Subsequently, the share of Ontarians receiving social

assistance fell from 14 per cent in 1994 to 6.5 per cent in the mid-2000s.

Other jurisdictions have experienced similarresults, demonstrating that conditions on transfers

help ensure government assistance remains a safety net for those in difficult circumstances

rather than a permanent source of income. A basic income, that lacks conditions and ignores

the evidence and lessons from Ontario’s past, will lead to higher rates of dependency.

Moreover, a basic income for the entire population would make many Ontarians, currently

ineligible for social assistance, eligible for the basic income transfer. This would then

discourage work among lower-income Ontarians not on social assistance, who already lose a

significant portion of each additional dollar of income earned to personal taxes and reduced

government transfers.

In fact, an Ontario family with two children and $40,000 of income loses almost 60 cents for

every dollar earned to personal taxes and reductions in transfers. To put it in perspective, this

rate of “tax” is actually higher than the top marginal income tax rate upper-income earners face

in Ontario.

The basic income program will result in another 50 cents being lost, leading to a total reduction

of more than a dollar for each additional dollar earned. This means a basic income—when

combined with personal taxes and other transfer programs—could have the perverse effect of

actually reducing the total income of some recipients if they try to improve their situation by

earning more employment income.

This won’t be the first time an unconditional basic income has been tested in North America.

Experiments in Canada and the United States in the 1960s and ’70s confirm that a basic

income tends to reduce the number of hours worked.

But there’s a different approach. Another experimental program (called theSelf-Sufficiency

Project) in British Columbia and New Brunswick in the 1990s, designed to encourage single

parents to transition from dependency on welfare to employment, showed that an income

transfer conditional on work can reduce dependency on government. 2/3

While Ontario’s basic income pilot program may shed new light on the issue, it won’t “help

more people in our province get ahead and stay ahead,” as the premier suggests.