The Problems of Funding a Universal Basic Income by Taxation

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Relying on bank credit, indirectly through taxation or directly via borrowing, to fund a Universal Basic Income (UBI) scheme is untenable. A fundamental reform of the financial system is the only viable means to ensure a future in which sustainable purchasing power is in the hands of the Canadian consumer. There is no need to take from Peter to give to Paul. Not one penny of anyone’s income would need to be redistributed. There is enough for everyone to have an income, a UBI, under a corrected financial system as advocated by Douglas Social Credit.

In the current framework, society cannot afford financing a UBI. Issuing each Canadian adult $1,000 per month would cost $322 billion annually. All federal spending in 2017/18 was almost that amount at $304.7 billion. Even with savings gained by collapsing some of the patchwork of social welfare programs, the increased costs in taxes to implement a UBI stagger the imagination.

The relatively generous redistribution of tax income in place today has not solved our social problems and we can reasonably conclude that more taxation is not the answer. We should not expect that a UBI, funded conventionally, would provide a solution; rather, it would magnify the inherent problems of taxation.

Taxes are already steep. We would be freer and happier if the tax lash and its reach was light rather than extensive but unfortunately it is not so. Satisfying the tax demands of all three levels of government for the average Canadian family takes 43.6% of its income. Tax Freedom Day for Canadians was June 10 this year!

There are other issues with taxation. Government spending does not always favour community interests but often rather supports partisan interests. Future prosperity is compromised because of deficit spending, borrowing and the scourge of national debt. We simply cannot rely on corporate Canada and America to fund a UBI when the global economy and tax havens allow for easy corporate relocations. Further, it is not just the super rich who are paying taxes. Corporate taxes are downloaded into prices and the ordinary consumer bears their cost; the burden is significant and growing for individuals and families. The Fraser Institute determined that the total tax bill for the average Canadian family has increased by 2,112% since 1961. Taxes have grown more rapidly than any single expenditure in a family’s budget in the intervening 6o years. (Expenditures on shelter increased just 1480%, clothing 732% and food by 625% during the same period.)

Personal income tax was introduced as a temporary measure in both Canada and the U.S. about 100 years ago and was set at a level that affected very few citizens. We value transparency and accountability but the tax system is the opposite. In its original form, Canada’s tax code was 11 pages long. A century later, it is more than 200 times that length and is complex beyond the capacity of the average taxpayer to decipher. Provincial and municipal tax codes add further to the burdensome and tangled web of tax obligations.

One of the problems with all this tax collection and government spending is that the individual forfeits the ability to support causes important to him or her and is forced to support causes that may be repugnant. It seems that no aspect of life is exempt from taxation or from tax increases. In June, business owners rallied at Calgary City Hall to protest hikes in property taxes of up to 45% from the previous year. Canada introduced a national carbon tax on April 1st despite staunch opposition from several of the provinces. The carbon tax will cost the average family an additional $258 this year. With annual increases for five years, the cost for the same family will skyrocket to $648 by 22/23.

The system diverts our attention from good old-fashioned living to sorting out how we can hold on to more of our income and some of our freedom. Not only does everyone pay taxes but many are commissioned as unpaid tax collectors, including manufacturers, employers, merchants and retailers, utility providers, restaurant and gas station owners. There is the tyrannical element, too, with the state threats of fines and incarceration for tax crimes. There are no options to sit on the sidelines; like it or not, we all must play the game.

It is a fact that governments will have a tough time funding a UBI by redistributing tax dollars as jobs in the economy shrink due to automation. We have to wonder not only who will be the tax base in the new economy but how will a much smaller workforce feel about their tax obligations? An Oxford University study estimated that 47% of jobs can be automated from a technological capability point of view and will be eliminated within 25 years. Another forecast is that by 2030, 80% of jobs that pay $20 or less per hour will disappear.

Given that taxing the fraction of the population who will still have jobs to support the remaining number is problematic, should we consider increasing tax revenue from corporate profits, honing in on the super-rich to fund a UBI? Will we drive both out of the country if we try? High marginal personal income tax rates are disincentives for earning more and incentives for skilled and highly paid workers to leave the country. The same is true for corporations. In a global economy, high corporate tax rates and high infrastructure costs result in corporate relocations. Although initially governments gain revenue with high marginal tax rates eventually the jurisdiction will lose its tax base when head offices, capital equipment and jobs relocate.

My home province of Ontario has the second highest combined tax rate of the 61 jurisdictions in North America and has the highest cost for hydroelectricity. Given a choice, these conditions will neither attract nor keep businesses and manufacturers in our midst. As a result, the province, which was once the country’s economic engine, has a failed manufacturing base.

Another consideration is whether redistributing tax dollars from Peter to pay Paul will increase Paul’s influence on public policy and enhance his marginalized influence in society. Presently, lower income Canadians wield little political power and do not significantly influence the social landscape.

Can palliative measures funded by taxation achieve the goals of equality and justice? If we cannot afford a UBI, which is true in the current financial framework, would a more limited scheme correct the issues of poverty? Fifty years ago, in Canada, the Croll Report recommended a limited guaranteed annual income to address poverty. Despite generous tax transfers to low-income Canadians since then, income redistribution has not yet solved the problem. In 2011, Canada ranked 21st out of 27 OECD countries in terms of poverty levels, with 1 in 7 qualifying as poor.

It is not likely that a relatively more affordable limited Basic Income scheme will fix the problems of power and class division. In this scenario, it is foreseeable that governments would add and cobble together yet more tax-funded programs in an attempt to ameliorate issues of social inequality with an almost predictable lack of success.

The issues of deficit spending and the debt burden are an inevitable consequence of the state’s incapacity to tax the population sufficiently to meet its spending habits. When governments engage in deficit spending they are creating future taxes against revenue and diverting tremendous resources from meeting the current needs of the population because of servicing the national debt.

It is fair to conclude that financing a UBI should not be sourced from borrowing or taxation. This is so even if Canada was not facing a reduced tax base slashed by job losses due to automation and the global economy. The conclusion holds even if wasteful spending was replaced by sober spending by government. If governments ceased pandering to special interest groups and if the problems of deficit spending and staggering debt were solved we would maintain the same conclusion. Even if redistributing wealth via a system of taxation resulted in equal access to power and influence for all we would still reject taxation as the correct means of financing a UBI.

What we must do is solve the problem, which is insufficient purchasing power, at its root. We need more money, but that does not necessarily mean that we need more taxation in order to get it. We can be liberated from public debts and freed from the problems of being taxed nearly to death by having a sound financial system that distributes a Dividend, a form of UBI, to all its citizens.

Money is a social instrument and medium of exchange that should be managed by society in the public interest. Clifford Hugh Douglas argued that issuing a Dividend to each person sufficient to have a decent living was justified based on the legacy each of us inherits at birth. The Douglas Social Credit argument is that the earth, with its abundant natural resources, and the accrued know-how of technological advancements made since the discovery of the wheel, rightly belongs to each member of society. We have a tremendous legacy that forms the natural foundation of wealth. In a just financial system, money, Financial Credit as it were, would simply reflect this foundation, this Real Credit, as he called it.

Governments, as trustees of society, would exercise their authority to create money for the common good and distribute a Dividend, sufficient to afford basic needs, to each citizen. Society can and should reclaim its authority to issue and manage its own money supply without recourse to private banks which currently enjoy a monopoly on creating money. Why not have society provide credit to its population rather than relying on private banks to issue debt?

With financial reform, we could monetize Canada’s natural wealth and productive capacity and issue a Dividend, a form of UBI, to each person without conditions. There is no reason why society could not directly fund infrastructure, issue loans to business and industry AND fund a Dividend distributed to each citizen. Indeed, there is every reason to pursue such financial reform.