

HOW THE PROPOSED PLAN WOULD OPERATE

Table 38 demonstrates how the proposed G.A.I. plan would work. Reference to Table 38 shows that if a family of four had no other income, its net income would be \$3,500 under the G.A.I. program.

Table 38 shows also the way in which the work-incentive feature of the program operates for families who do have other income. The plan guarantees that every dollar earned by the family will mean an *increase* in net income. Thus, even if a family's other income for the year is only \$500, its net income is higher than the basic allowance rate. If the family has an income of \$2,500, its net income for the year would be \$4,250. Only when "other income" reaches \$5,000 (the break-even point), and the family is no longer considered poor, would allowances be discontinued.

The information contained in Table 38 is shown graphically in Chart 7. In this chart, the area within the triangle represents the amount of basic allowance received by families who have varying amounts of "other income." The lower of the two diagonal lines represent the amount of "other income" while the upper diagonal line shows the net or final income. The chart also includes an example of how it should be read. For example, when other income is \$2,000, the amount of subsidy is \$2,100 and the two combined give a final or net income of \$4,100. At one extreme, if the family had no other income, its basic allowance and net income would have been \$3,500. On the other hand, when "other income" equals \$5,000, the basic allowance is reduced to zero and net income is \$5,000. This, of course, is the break-even point, corresponding exactly to the Committee's poverty line. When income rises above this point, as represented by the dotted line, the family begins to pay positive income taxes.

The example given above refers to the year 1969. Due to the escalator mechanism which has been built into this program, both the basic allowance level and the break-even point would be adjusted to reflect the rising standard of living in Canada. In 1970, for instance, it is estimated that the basic allowance level for this family of four would be raised to \$3,780, with a corresponding change in the break-even point (and poverty line) to \$5,400. An estimate for 1971 would be a guarantee level of \$4,060, and a corresponding break-even point of \$5,800.

It should be observed that the particular values assigned to the four basic variables in the proposed G.A.I. are to some extent arbitrary. Experimentation with various alternative combinations, and considerations of the constraints imposed by the criteria, led to the selection of these particular values. An ideal income-maintenance program would provide all Canadians in need with a minimum annual income equal to the Senate Committee's poverty line. It would also provide a substantial incentive to work through minimum level of taxation on other income. Finally the program should be accomplished at minimum costs to the government and the tax-payer. These goals obviously conflict with each other, and any program must be designed as a