



The Canada Child Benefit Needs to be Fully Indexed to Inflation

We are at a loss to explain why the federal Liberal government would make such significant progress in assisting lower-income families with children and then quietly unravel much of the improvement they were so proud to announce.

Like many commentators, the Caledon Institute applauded the new Canada Child Benefit – the Liberals’ social policy centrepiece. For years, we had proposed this approach to providing adequate benefits to families with children, no matter where they live. The new child benefit is tied to family income. The less you have, the more you get from government and vice versa.

The Canada Child Benefit will help the vast majority of families with the cost of raising children. Its design will also reduce significantly the number of children living in poverty in this country. So far, so great.

Unfortunately, a closer look at data buried deep in the recent budget has revealed an Achilles heel in the Canada Child Benefit:

It won’t be indexed to the rate of inflation until 2020.

Canada has a long, inglorious history of failing to fully index the income tax system and social benefits. Successive Conservative and Liberal governments, on occasion, have compromised the income tax system and social programs by indexing them partly or even not all.

There are basically two components to adequacy. The first is the current value of any given benefit. The second is the relative value of the measure – its real value over time. Indexing social benefits respects this second component of adequacy by protecting benefits from inflation.

Simply put, if a child benefit’s rate remains the same from this year to the next while the cost of living increases by 2 percent, then the benefit will lose its real value by 2 percent. But if the child benefit is tied to the cost of living, then it will retain its real value over time.

This problem may not seem all that serious at first glance. Over the years, however, the losses can really add up. We calculated the impact of non-indexation of benefits on families with one child under 6 and household income of \$15,000.

In July, 2016, the Canada Child Benefit will pay a maximum of \$6,400 to this household. If inflation runs at an annual rate of 2 percent, the purchasing power of that benefit will fall to \$6,272. By 2020, the real value of the benefit will be only \$5,903 in constant 2020 dollars. And if inflation in future years is higher, that loss will be even greater.

Poor families will be hit hardest by the failure to protect the Canada Child Benefit from inflation. For families with income of \$15,000 and one child under 6, their Canada Child Benefit in 2016 represents a substantial 43 percent of income. Without indexation, the new benefit will account for just 39 percent of income in 2020, based on an inflation rate of 2 percent a year over the period.

The shrinking value of the Canada Child Benefit also weakens the design of the program. Slowly but steadily over time, lack of indexation will lower the income threshold for maximum benefits and so reduce the number of low-income households that qualify for the maximum

child benefit. It's like closing a door slightly more every year and allowing fewer and fewer people to pass through.

There are several possible remedies. For example, the government can modify the design of the newly introduced middle class tax cut to help reduce its associated cost. Ottawa can also continue its laudable efforts to plug the leakage of revenue through boutique tax credits that favour the wealthy.

Ottawa should do the right thing and launch the Canada Child Benefit on a solid foundation, fully fledged and fully indexed. As a hallmark social program, steps should be taken immediately to protect its value.

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