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SOCIAL POLICY

The National Child Benefit: Best Thing Since Medicare or New Poor Law?

by

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September 1997

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**paper presented at the Eighth Conference on
Canadian Social Welfare Policy
"Social Policy, Security, Citizenship: Changing Roles and Defining Goals"
University of Regina
Regina, Saskatchewan
June 25-28, 1997**

by

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September 1997

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ISBN 1-895796-80-6

Published by:

The Caledon Institute of Social Policy
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Introduction

The 1997 federal Budget's announcement of a National Child Benefit System provoked three kinds of responses from social policy groups and advocates, and a distinctly different one from the media and public:

1. negative

- “a huge disappointment” [National Council of Welfare 1997b]
- “seriously flawed method of enriching incomes for poor children... victimizing the poorest” [Pulkingham, Ternowetsky and Hay 1997: 6]
- “... now they toss a bone to us ... falls way short of what is required” [National Anti-Poverty Organization 1997]
- “Is this the best we could do?” [Collins 1997]
- “Ottawa fiddles with child poverty as social programs burn” [Ontario Coalition for Better Child Care 1997]

2. guarded support

- “... A Small Step Forward...the overall thrust of the reforms proposed by the federal, provincial and territorial governments is promising.” [National Council of Welfare 1997c: 12]
- “The CCSD supports the 1997 federal budget's first step towards establishing a National Child Benefit System ... However, we believe that much work remains to be done.” [Canadian Council on Social Development 1997b: 4]

3. guarded enthusiasm

- “has the potential to be the most important social policy innovation since medicare. But the 1997

federal Budget is only a down payment... Much work remains to be done, by both levels of government, individually and together.” [Caledon Institute of Social Policy 1997: 1]

4. indifference

- media (with the odd exception)
- public

The negative or wary reaction of the non-governmental social policy community to the 1997 federal Budget's child benefit changes is understandable and predictable. Any major social policy initiative is bound to spark controversy, especially when it involves the welfare system. But there are a number of reasons why social advocates are particularly leery of governments bearing social policy gifts in the 1990s.

Welfare recipients and welfare rights groups feel vulnerable to welfare-bashing, which is more evident than ever these days. Welfare has been the subject of benefit cuts or freezes and other forms of constraint in virtually every province in recent years, most prominently in Alberta and Ontario. The Conservative government of Mike Harris campaigned on a get-tough-with-welfare platform in Ontario and has followed through with a huge (21.6 percent) cut in welfare benefits and plans to implement work-for-welfare and bolster anti-fraud measures.

After a decade and a half of both overt and stealthy changes to virtually every major federal and provincial social program, social advocates have every right to be suspicious of ‘reform.’ Most – but not all – of the social program changes have been regressive. The changes made to federal social transfers to the provinces, Unemployment/Employment Insurance, the Canada Pension Plan, the income tax system, the refundable GST credit, welfare and social services generally

weigh heaviest on low-income families and individuals. The numerous cuts which governments have made to social programs – in relatively few years profoundly altering and in some cases weakening the social infrastructure that took decades to build – are all the harder to swallow when contrasted to the historic 1989 Commons Resolution against child poverty.

The dismal trend in the poverty statistics also has made a mockery of the 1989 Resolution. The percentage of children in low-income families has increased from 15.3 percent in 1989 (one child in seven) to 21.0 percent in 1995 (one child in five). Six in ten children (62 percent) in single-parent families led by women lived on low incomes in 1995 compared to one in seven (14 percent) children in two-parent families. Since 1989, the number of low-income children has increased by close to half a million (456,000) or by 45 percent (from 1,016,000 in 1989 to 1,472,000 in 1995). More troubling still, 1995 was the first year that the poverty rate did not decrease with the falling unemployment rate and rising GDP, due mainly to slow employment growth (all in part-time jobs that year) and declining average wages.

It is worth pointing out that the 1989 Resolution is always misquoted by the media and social groups to say that the federal government committed itself ‘to end child poverty by the year 2000’: That is not the case. The actual wording contained a not insignificant qualifier – ‘to seek to achieve the goal of eliminating poverty among Canadian children by the year 2000.’

Until recently, Ottawa and the provinces have not done much ‘seeking’ after child poverty, though the federal government would argue that its successful campaign to eliminate the deficit is a prerequisite to any campaign against child poverty. However, developments over the past two years – politically jump-started by the provinces’

Ministerial Council on Social Policy Reform and Renewal and culminating in the 1997 federal Budget announcement of changes to federal child benefits and joint federal-provincial efforts to create a National Child Benefit System – mark the first potentially positive social policy initiative against child poverty in many years.

The main purpose of this paper is to contribute to the public debate on the National Child Benefit by summarizing and discussing criticisms which social groups have levelled against the initiative. First, however, I briefly describe the child benefit changes announced in the 1997 federal Budget and then explain why the Caledon Institute considers the National Child Benefit to have the potential to become a major advance in Canadian social policy.

The 1997 Budget and child benefits

The 1997 federal Budget made two major announcements on child benefits involving joint action on the part of the federal and provincial governments. The federal government will increase and reconfigure the Child Tax Benefit as the Canada Child Tax Benefit. The provinces will reallocate savings from welfare expenditures for children, made possible by the increase in federal child benefits, to various other programs and services for low-income families with children. The federal Canada Child Tax Benefit and provincial reinvestment programs for low-income families with children in combination will form what Ottawa and the provinces have termed the National Child Benefit System.

The federal changes will be phased in over two years. In 1997, Ottawa will shift the Working Income Supplement from its current maximum amount of \$500 per family to a per-child benefit worth a maximum of \$605 for the first child, \$405 for the third child and \$330 for

the third and each additional child. (The Working Income Supplement is a special benefit introduced as part of the Child Tax Benefit when the latter program replaced Family Allowances and the refundable and non-refundable child tax credits in 1993; the Working Income Supplement phases in when earnings reach \$3,750, pays its maximum benefit between \$10,000 and \$20,921 and phases out once net family income reaches \$25,921.) Including the current Child Tax Benefit, in 1997 total federal child benefits for working poor families will increase to \$1,625 for one child and \$1,425 for the second and each additional child, plus the existing \$213 supplement for each child under 7 for whom child care expenses are not claimed. Federal child benefits for other low-income families (i.e., welfare and Employment Insurance families) in 1997 will remain at their current rates – a maximum \$1,020 per child plus the existing \$213 young-child supplement and \$75 supplement for the third and each additional child. According to the federal government, the changes to the Working Income Supplement will increase costs by \$195 million and will benefit 720,000 families or 23 percent of the 3.2 million families which receive the Child Tax Benefit [Department of Finance Canada 1997: 16].

In 1998, the Working Income Supplement will be absorbed into a larger and simplified Canada Child Tax Benefit paying all low-income families – whatever combination of income they receive from wages, welfare, Employment Insurance and other sources – a maximum \$1,625 for the first child and \$1,425 for each additional child, augmented by the existing \$213 supplement for children under 7 for whom child care expenses are not claimed. In other words, the federal child benefits provided to working poor families in 1997 will be extended to all low-income families in 1998. The 1998 changes will add another \$655 million to the federal child benefits budget and will increase payments to an estimated 1.4 million families (44 percent of Child Tax Benefit families)

with 2.5 million children (44 percent of the 5.7 million children for whom the Child Tax Benefit is paid) [Department of Finance Canada 1997: 18].

The new Canada Child Tax Benefit will use a lower threshold for maximum payments (\$20,921 as opposed to the current \$25,921) and a higher reduction rate between net family income of \$20,921 and \$25,921 in order to focus benefit increases on families with net incomes below \$25,921. However, families with net incomes above \$25,921 will continue to receive the same benefits as they do now. The Canada Child Tax Benefit, like the present Child Tax Benefit, will provide partial benefits to most non-poor families. Benefits disappear at relatively high incomes - e.g., \$75,241 for families with one child under 7, \$70,981 for families with one child under and one child over 7, \$66,721 for two children over 7, and \$101,401 for families with three children under 7.

The changes are summarized in Table 1. All low-income families will receive more federal child benefits in 1998 than they did in 1996, though the increases will vary according to the number of children and whether or not the family used to receive the Working Income Supplement (i.e., was working poor). The gains will be smaller for working poor than other lower-income families because the former receive more child benefits from the current system (i.e., the Working Income Supplement in addition to the basic Child Tax Benefit). The gains for working poor families increase according to the number of children because the Working Income Supplement favours small families (since it is a per-family rather than a per-child benefit). The opposite is the case for other low-income families because the Canada Child Tax Benefit will pay a larger benefit for the first child.

The changes to federal child benefits are one part of the National Child Benefit System. The federal Canada Child Tax Benefit will provide a stronger and level foundation upon which

Table 1
Maximum Federal Child Benefits, Working Poor and
Other Low-Income Families, by Number of Children¹, 1996-1998

working poor families²	1996	1997	1998	1996/98	1996/98
	\$	\$	\$	\$	%
1 child	1,520	1,625	1,625	105	6.9
2 children	2,540	3,050	3,050	510	20.1
3 children	3,635	4,475	4,475	840	23.1
4 children	4,730	5,900	5,900	1,170	24.7
other low-income families	1996	1997	1998	1996/1998	1996/98
	\$	\$	\$	\$	%
1 child	1,020	1,020	1,625	605	59.3
2 children	2,040	2,040	3,050	1,010	49.5
3 children	3,135	3,135	4,475	1,340	42.7
4 children	4,230	4,230	5,900	1,670	39.5

the provinces can build in varying ways. Provinces will deduct the increases in federal child benefits from welfare payments on behalf of children, but they must ‘reinvest’ these savings in other programs for low-income families with children, such as income-tested child benefits, wage supplements, in-kind benefits (e.g., supplementary health care) and social services. Together, the Canada Child Tax Benefit and the provincial reinvestments will constitute the National Child Benefit System.

Caledon’s vision of a National Child Benefit

The Caledon Institute of Social Policy’s vision of an effective child benefit goes well beyond the changes announced in the 1997 Budget, which are just the first stage in the development of the National Child Benefit System. If the federal and provincial governments went

no farther than the changes announced in the Budget, we would view them as a worthy but limited advance in social policy. We characterized the Budget’s child benefits changes as “having the potential to be the most important social policy innovation since medicare” because they launch what promises to be a major structural reform of both the child benefit and welfare systems [Caledon Institute of Social Policy 1997: 1].

The 1997 federal Budget paper, *Working Together Towards a National Child Benefit System*, wrote of the ‘welfare wall’ as one of the key deficiencies of the current child benefits system. The ‘welfare wall’ is a concept coined by the Caledon Institute of Social Policy in a 1993 study commissioned by the Ontario Fair Tax Commission of the interaction of the welfare and tax systems [Battle and Torjman 1993]. It referred in its initial usage to the fact that welfare recipients face a veritable wall of high marginal tax

rates if they try to supplement their social assistance benefits with outside earnings – the main (though not only) cause being the high welfare taxback which reduces benefits dollar for dollar of earnings above a relatively low level of exempt earnings.

Caledon went on to extend the concept of ‘the welfare wall’ to the child benefits system. At present, welfare families with children receive about twice as much child benefits as other low-income families which are not on welfare, namely the working poor and families relying upon Employment Insurance. (The exception is British Columbia, which has replaced welfare benefits for children with an income-tested program for all low-income families). Welfare families receive child benefits from two levels of government – the federal Child Tax Benefit and provincial welfare benefits payable on behalf of children (some welfare systems also offer special allowances such as winter clothing, back-to-school allowances and in-kind benefits such as supplementary health care and prescription drugs). Working poor and other low-income (and middle-income) families receive only federal child benefits – the basic Child Tax Benefit and, if families have low earnings, the Working Income Supplement. (In addition to welfare benefits for children, Saskatchewan, Manitoba and Quebec provide other forms of child benefit.)

In an example given in the Budget paper, a prototypical welfare family with two children (one under and one over 7) gets almost twice as much total child benefits (\$5,253) as a working poor family with two children (\$2,753). The amount for welfare families excludes the imputed value of welfare in-kind benefits, estimated at \$1,000 for a family with two children. But there are real-life examples as well. A Quebec couple on welfare with two children 7 and 11 gets \$4,800 in total child benefits – more than double the \$2,174 for a working poor couple earning \$16,000. In BC, before the BC Family Bonus was created, a welfare family with two children

7 and 11 got \$4,512 (\$2,040 from the Child Tax Benefit and \$2,472 from BC’s welfare system) as opposed to the maximum \$2,540 in federal child benefits for a working poor family.

If a parent leaves welfare for the workforce, she will lose thousands of dollars in cash and in-kind child benefits; faces employment-related expenses (e.g., clothing for work, transportation and child care); and will have her (likely low) wages reduced by Canada Pension Plan contributions, Employment Insurance premiums and federal (and, in many provinces, provincial) income taxes. Thus provincial child benefits provided by the welfare system constitute part of the welfare wall which exacerbates other major problems – the lack of affordable child care and decent jobs – that make it hard for many families with children to get off welfare.

The solution to this problem is an ‘integrated child benefit,’ meaning a common child benefit paid to all low-income families by a program that is separate from the welfare system. (The history of the concept of the integrated child benefit is discussed in a forthcoming Caledon study of child benefits reform by Ken Battle and Michael Mendelson.) So far, the province of British Columbia is the only jurisdiction to have created an integrated child benefit when in July 1996 it replaced welfare benefits for children with the BC Family Bonus, an income-tested program that serves low-income and modest-income families with children in the province. Saskatchewan and Quebec also plan to introduce integrated child benefit programs.

Caledon views an integrated child benefit as a fundamental advance in social policy. Not only would an integrated child benefit correct the present unequal treatment of poor children depending upon their parents’ major source of low income. It also would lay the foundation for a form of guaranteed income for children, which could be achieved by boosting the level of maxi-

maximum child benefits from the federal Canada Child Tax Benefit and supplementing that amount with provincial income-tested child benefits. All low-income families with children throughout Canada would receive the same amount of federal child benefits from a broadly-based income-tested system that also provides payments to the majority of non-poor families with children.

Let me make perfectly clear that Caledon does not view an integrated child benefit as ‘the’ answer to child poverty. Poverty is a complex problem that is deeply rooted in our economy (e.g., high unemployment and underemployment, growth of non-standard jobs, wage polarization) and society (e.g., marriage breakdown). Child poverty cannot be vanquished by a magic bullet. Indeed, we titled our January 1995 report which proposed and costed an integrated child benefit *One Way to Fight Child Poverty* to make the point that child poverty must be tackled on a number of fronts using a wide range of public and private interventions. These include social, employment and health programs; fiscal and monetary policy; family-friendly workplace practices, parental leave and leave for family responsibilities; and community-based initiatives [Battle and Muszynski 1995]. However, income security programs such as child benefits greatly reduce poverty and income inequality, and could do a lot more to combat child poverty – as evidenced by the more successful efforts of most European countries.

Caledon has fleshed out its vision of an integrated child benefit to include the following requirements:

- a broadly-based, income-tested monthly cash child benefit serving low- and middle-income families with children
- maximum benefit payable to all low-income families regardless of their source(s) of income, with diminishing payments to non-poor families
- maximum benefit should increase to a level sufficient to replace welfare benefits for children (around \$2,500 per child) by the year 2000
- further increases in the maximum child benefit are required after 2000 to reach (by 2010 at the latest) the goal of covering the cost of raising a child (e.g., \$4,000 per child by conservative estimate)
- to remedy the current partial indexation of federal child benefits and non-indexation of welfare payments on behalf of children, the Canada Child Tax Benefit and provincial income-tested child benefits and employment earnings supplements – their benefits and income thresholds for maximum payments – should be fully indexed to inflation
- once the \$2,500 target is achieved, further increases in the maximum child benefit should improve payments to modest-income families (e.g., \$25,921-\$35,000)
- the Canada Child Tax Benefit and provincial income-tested child benefits should use total family income to calculate eligibility for and amount of benefits instead of the current net family income definition (because net income allows well-off families to reduce their income through regressive tax deductions and thus qualify for substantially more child benefits than their actual income would permit)
- the federal government provides the same Canada Child Tax Benefit to all low-income families, though with some provincial variations in rates allowed (as under the former Family Allowances program and the current Child Tax Benefit)
- provinces can choose to provide their own income-tested child benefits and/or employment earnings supplements on top of the federal

national base (as is the case for elderly benefits, where provinces add their own income-tested benefits to the national base provided by Old Age Security, the Guaranteed Income Supplement – and their coming replacement, the Seniors Benefit)

- both levels of government must make publicly available data and other information required for social groups and non-governmental experts to independently monitor and evaluate progress towards a National Child Benefit System, and should create an institutional mechanism whereby such groups' views can be made known to policy-makers, administrators and the media.

Criticisms of the National Child Benefit

The National Child Benefit has been criticized vigorously by social advocacy and research groups. Their major allegations are discussed below. Of course, every group does not necessarily level all the criticisms mentioned. (The criticisms are set off in single quotation marks and italics.)

1. *'unfair to the working poor'*

Critics were quick to point out that *'families with one child will be \$395 worse off than they would have been under the 1996 Budget proposal to double the Working Income Supplement, and those with two children will get only a small increase.'*

Working poor families with one child which currently receive the maximum Working Income Supplement will get \$395 less from the Canada Child Tax Benefit than they would have if the federal government had proceeded with its 1996 Budget proposal to double the Working Income

Supplement by 1998. Working poor families with two children will be only \$10 ahead under the Canada Child Tax Benefit than they would have if the Working Income Supplement had been increased; those with three children will get \$340 more; and those with four children will be \$670 ahead.

This criticism often fails to specify that it is only working poor families with one child which qualify for the Working Income Supplement – not 'families with one child' (i.e., not those on welfare or Employment Insurance) – which will get less from the Canada Child Tax Benefit than if the 1996 plan to double the Working Income Supplement had gone ahead. Only 289,000 or 8.7 percent of all Child Tax Benefit families receive the maximum Working Income Supplement, so by my estimate only around 120,000 families or 3.6 percent of the 3.3 million families with the Child Tax Benefit will 'lose' the full \$395. Moreover, families which receive a partial Working Income Supplement will 'lose' less than \$395. Overall, of the 792,000 families which receive the Working Income Supplement, an estimated 330,000 or 10 percent of all Child Tax Benefit families have one child and so will get less from the Canada Child Tax Benefit than they would have if Ottawa had kept to its original plan to double the Working Income Supplement.

But such numbers are beside the point in any case. This criticism is based on a fundamental misunderstanding of what Ottawa and the provinces are trying to accomplish with the National Child Benefit. The criticism treats the Canada Child Tax Benefit as if it were still the Child Tax Benefit. The aim of the Canada Child Tax Benefit is to increase federal child benefits for all low-income families – not just the working poor – to displace and eventually (given adequate increases in future) to fully replace welfare benefits for children. Moreover, some if not all working poor families under the National Child

Benefits System also should receive provincial, not just federal, child-related benefits (e.g., as is the case with BC's new Family Bonus) in the form of cash and/or services. (I say "some" because conceivably not all working poor families would make use of certain reinvestments, such as social services).

This criticism is ironic in view of the fact that social groups opposed the Working Income Supplement when it was introduced in 1993 as part of the new Child Tax Benefit on the grounds that it discriminated against poor families not in the workforce. The 1997 Budget will do away with the very benefit that advocacy groups criticized four year ago – and which they now use to fault Ottawa for not doubling.

The Working Income Supplement is one of the shortcomings of the existing child benefits system. The Working Income Supplement does not really live up to its billing as a 'work incentive' and earnings supplementation program for the working poor.

The Working Income Supplement favours small families because, unlike the Child Tax Benefit and welfare, it does not adjust for the number of children in a family. Its per-family rather than per-child benefit structure and modest payment (a maximum \$500 per family) means that the Working Income Supplement does little to compensate for the loss of welfare benefits for children in the case of parents who move from welfare to work. Because the Working Income Supplement remains at its maximum amount for family earnings between \$10,000 and \$20,000, it does not reward increases in employment earnings in this wide range. The Working Income Supplement is a relatively blunt instrument which does not take account of differences in provinces' welfare and other income programs and in their family income distributions.

The Working Income Supplement's main shortcoming is that it is 'invisible.' Its recipients do not know that part of their federal child benefit is meant to reward their work effort because the Working Income Supplement is submerged in the total Child Tax Benefit payment. Nor is the Working Income Supplement responsive to changes in earnings because of the long lag (up to 18 months) between assessment of a family's income and payment of the Working Income Supplement; the Child Tax Benefit suffers from the same problem of lack of responsiveness to income changes.

2. *'unfair to welfare families with children'*

This is by far the most serious and damning criticism of the National Child Benefit System. It has taken various forms, including:

- *'welfare families – the poorest of the poor, representing the majority (60 percent) of low-income families with children – will receive no increase because the provinces will be allowed to deduct increased federal child benefits from welfare benefits paid on behalf of children'*
- *'by increasing child benefits for the working poor (through larger federal benefits and reinvestment*
- *in provincial programs for the working poor), governments are implying that working poor*
- *families with children deserve additional help while welfare families with children do not'*
- *'welfare families – the poorest of the poor – will be worse off because the National Child Benefit will be financed by cuts to*

welfare – as the BC government did when it helped finance its new BC Family Bonus out of cuts to welfare benefits for some adults and the elimination of the provincial sales tax credit for children’

- *‘the National Child Benefit will exacerbate the current mood of welfare bashing by favouring the working poor and accentuating the distinction between the (undeserving) welfare poor and the (deserving) working poor’*
- *‘welfare families should not trust an integrated child benefit, which can be cut at the whim of governments’*
- *‘the real purpose behind the National Child Benefit is to reduce the welfare rolls, which is punitive to welfare families and in any case naive because the real problem is not the welfare wall but the lack of jobs on the other side and decent child care services’*

It is true that, in this first stage, the National Child Benefit System will not increase child benefits for welfare families and will augment child benefits only for families not on welfare (i.e., working poor and low-income Employment Insurance families). But the federal and provincial governments justify this differential treatment as necessary to provide non-welfare families equivalent child benefits to those on welfare, which currently receive substantially more child benefits (income and in-kind). The National Child Benefit System is intended to provide a common child income benefit to all low-income families regardless of their source(s) of income. Remember that the basic objective of an integrated child benefit is to end the distinction between welfare children and other low-income children by treating welfare families the same for child benefit purposes as working poor families – and by delivering their child benefits outside of welfare. In other words,

an integrated child benefit treats all low-income families with children equally.

On a point of fact, it is not the case that ‘60 percent of low-income families rely mainly on welfare.’ Figures from Statistics Canada’s Survey of Consumer Finances, prepared for the National Council of Welfare, show that only 26 percent of families with children rely on welfare alone – less than the 30 percent of families with children which count employment earnings as their main source of income. Another 16 percent of families with children receive substantial amounts of income from both work and welfare; if we allocate half of these families to the welfare category, then a total of 34 percent can be counted as mainly dependent on welfare. But if we allocate the other half to working families, as well as half of the families which get significant amounts of income from both work and Employment Insurance, then in total 44 percent of families with children can be classified as mainly working poor. All in all, half of low-income families with children are connected to the labour force; they either receive Employment Insurance or are mainly working poor [National Council of Welfare 1997d].

At this stage in the development of the National Child Benefit System, governments have chosen to devote their resources to reducing the child benefits differential between welfare families and other low-income families. Critics of this approach must believe either of two things; it would help the public debate if they made their views known on this crucial point.

On the one hand, they can believe that welfare families deserve larger child benefits than the working poor and other low-income families with children (presumably because welfare families are considered to be the poorest of the poor). Alternatively, they may feel that all low-income families should get the same child bene-

fits, but that those on welfare should get more than they do now given the low and in many cases falling level of welfare benefits. The logical result of the latter position is that governments should be spending more to create a larger child benefit that both increases benefits for welfare families and extends this higher level of benefit to the working poor and other non-welfare poor families. This raises the issue of funding, discussed later.

On the contentious issue of welfare families having their social assistance reduced dollar for dollar of increased federal child benefits, it is not certain that welfare families would receive the full increase in federal child benefits if, instead, they were allowed to keep the money. Overtime, provinces could capture some of the federal money through stealth by delaying or foregoing increases to welfare rates or, as is increasingly the way these days, by reducing rates or making other belt-tightening changes to the welfare system (e.g., cutting special benefits and reclassifying recipients).

Though the provinces have promised that welfare families will not be left worse off as a result of the National Child Benefit System, it is difficult to imagine this ‘voluntary condition’ having much meaning over time – i.e., after the provinces have reinvested their welfare savings from increased federal child benefits. Otherwise, the National Child Benefit System would achieve a major victory in getting the provinces to agree to maintain welfare rates for families with children (more precisely, parents’ benefits once children’s benefits are fully removed from welfare). It would be dreaming in technicolor to hold out such a hope. But at least the provinces will not be allowed to siphon away welfare savings to purposes unrelated to child poverty.

Granted, the ‘reinvestment agreement’ by which the provinces are supposed to reallocate welfare savings to other programs for low-

income families with children cannot prevent provinces from using the extra money to offset what they would have spent anyway. BC, for example, already financed its Family Bonus before the National Child Benefit System came along; presumably, it can feel justified in using some of the increased federal benefits from the Canada Child Tax Benefit to recoup some of its costs, though welfare advocates will complain that the BC Family Bonus was financed partly by cuts to welfare benefits for recipients without children and the elimination of the sales tax credit for children. Nor is the reinvestment agreement likely to require provinces to index their expenditures on non-welfare programs and services for low-income families with children. However, given a sound evaluative framework, public reinvestment rules and a monitoring role for social advocates, there is probably a better chance of preventing erosion in expenditures on reinvestments than on welfare. At least the provinces have agreed to keep their welfare savings within the expenditure envelope for low-income families with children.

But I would not put too much store on the long-term importance of the reinvestment process. I think that the ‘reinvestment’ from welfare to other programs and services for low-income families with children will be a transitional phase in the development of the National Child Benefit. It probably will end once Ottawa increases the Canada Child Tax Benefit to the \$2,500 remove-children-from-welfare level, since at that time there will be no more provincial welfare benefits for children to displace (generally speaking – some provinces provide a few hundred dollars more on average). But the \$2,500 mark is only the first objective; the federal government must keep investing in the Canada Child Tax Benefit to raise the national foundation to an adequate level that will offset the cost of raising children for low-income families. The Canada Child Tax Benefit can be monitored and evaluated in precise terms in a way that unindexed welfare, in-kind

benefits and social services cannot. In any event, in the brave new world of the Canada Health and Social Transfer, the federal government will have no influence on provincial social services or welfare (apart from providing a cash incentive for provinces to remove child benefits from welfare).

The reinvestment deal has been faulted for favouring the working poor, since the 1997 Budget paper specified that welfare savings would go to finance programs “to assist children in low-income working families” [Department of Finance Canada 1997: 19]. The federal government’s position is that the welfare savings it is generating by increasing federal child benefits should be reinvested in programs (income and/or services) for working poor families in order to begin lowering the welfare wall. Remember that welfare benefits for children will not end overnight, since there is a considerable distance to go before they could be fully displaced by federal child benefits.

Whether one accepts this logic or not, the fact remains that it would be difficult in practice to restrict reinvestments to programs that serve only the working poor. For example, if provinces reinvested in such provisions as school breakfast programs, child development services or child care, could and should welfare families be denied access to them? There is no longer a sharp distinction between working poor and welfare poor; some low-income families move in and out of the workforce and on and off welfare and Employment Insurance. Notwithstanding the welfare wall argument, the social policy and political optics of barring one group of low-income families with children from part of the National Child Benefit System would be bad – and certainly would give social advocates fodder for complaint.

Another limitation of the reinvestment deal is that there is really no way for the federal

government – or other provincial governments for that matter – to influence the reinvestment decisions of a particular province. The two levels of government are negotiating a framework for reinvestment which probably will do little more than draw the boundaries of programs and services deemed acceptable for the reinvestment of welfare savings. The only guidelines given so far publicly, in the 1997 federal Budget paper, are vague – “programs targeted at improving work incentives and supporting children in low-income families” [Department of Finance Canada 1997: 16] Ontario announced that it will use its initial welfare savings from the Canada Child Tax Benefit to create a new provincial child care tax credit; I doubt that child care advocates would applaud such a demand-side approach that does nothing to increase the supply of child care spaces. Alberta is putting in place an earnings supplement for working poor families with children; Quebec has had such a program for years and Saskatchewan and New Brunswick are bringing in their own versions. The range of reinvestment activities will be broad, and it seems highly unlikely that there will be any sort of standards to govern such programs.

The claim that welfare families will get nothing from the National Child Benefit System is based on the single criterion of cash benefits before and after the change. This is too narrow an evaluative approach. I think that not only the working poor, but also welfare families, will fare better under the National Child Benefit System.

The Canada Child Tax Benefit and the income-tested child benefits that several provinces are providing or planning are income-tested benefits that come with none of the stigma of welfare. Instead, they are delivered anonymously and impersonally, eligibility being determined on the basis of income as reported on the income tax return rather than assessed through the intrusive needs test used by welfare. Like the existing Child

Tax Benefit, the Canada Child Tax Benefit will serve the large majority (85 percent) of Canadian families with children, including middle-income and some upper-income families. The BC Family Bonus is more targeted than the federal child benefit, but still serves modest-income families (e.g., benefits for a family with one or two children disappear above net family income of \$33,540, which is above the low income cut-offs which range in 1997 from an estimated \$32,722 for a family of four living in a city of 500,000 residents or larger to \$28,066 for a city of 100,000-499,999, \$27,871 for a city of 30,000-99,999, \$25,934 for communities under 30,000 and \$22,613 for rural areas).

In an era of restraint in public spending, income-tested benefits have proven to be the safest of all income security programs in Canada. In fact, income-tested child and elderly benefits have been increased. By contrast, needs-tested welfare benefits have fallen for almost all recipients in recent years, social insurances have proven vulnerable (especially Unemployment Insurance (Employment Insurance) and universal programs – supposedly the safest of all – are extinct in the case of child and elderly benefits. Politically, the chances of improving child benefits under an income-tested National Child Benefit are far superior to winning increases in welfare benefits. In future, after the National Child Benefit System is put in place, governments can and should raise the level to improve child benefits for welfare (and other) families.

The important caveat to my claim that income-tested programs have fared best is that federal child benefits – unlike elderly benefits – have been partially deindexed since 1985. The issue of partial indexation is discussed below. I make the point that welfare families could be better off than under the current system by receiving more (and eventually most, if not all) of their cash child benefits from the federal government; at least they will be getting partially indexed child

benefits as opposed to unindexed welfare benefits for their children. Better still, if Ottawa can be persuaded to fully index the Canada Child Tax Benefit, welfare families and other low-income families will have a stable source of income from child benefits.

The welfare wall is not the only barrier to employment, but it is a real barrier nonetheless. Parents on welfare will be able to risk taking a job because they will continue receiving the Canada Child Tax Benefit and provincial child benefits in provinces which offer them; if they have to fall back on welfare, they will know that their child benefits are secure. The Canada Child Tax Benefit is analogous to the Canada Pension Plan in that it is ‘portable,’ remaining with families no matter where they work or otherwise obtain their income.

There is no question that improving work incentives is a key objective of the National Child Benefit and a major selling point to governments, particularly the provinces which now effectively pay the full bill for welfare. The cuts to federal payments to the provinces under the Canada Health and Social Transfer will amount to about what Ottawa spent previously on provincial welfare spending, and the rising cost of caseload increases during recessions now will fall entirely on provincial treasuries. However, I doubt any National Child Benefit System supporter is so naive as to believe the system’s benefits (from income and services) on their own will enable large numbers of welfare recipients to leave welfare for the workforce, or will prevent families from turning to welfare if they have no other source of income.

The provinces do not need a National Child Benefit System to push welfare recipients into the workforce; some have reclassified welfare single parents as employable before and doubtless others will do so in future. However, a crucial issue for monitoring by advocacy groups and social policy analysts will be whether provinces

cite the National Child Benefit System as a rationale for reclassifying single mothers as employable or forcing them into work-for-welfare schemes.

If so, then the accusation that the National Child Benefit System will serve some provinces' welfare-to-work approach to welfare reform will prove to be justified.

3. *'the National Child Benefit is too little too late – it will not come into effect until 1998 (poor families need help now), will have little impact on child poverty and won't abolish child poverty by 2000'*

There is no question that the Canada Child Tax Benefit and related provincial child benefits will not have a major impact on the rate and number of low-income children. In this sense, child benefit reform will fail to 'abolish child poverty by the year 2000.' But apart from the fact that the Commons did not make this commitment in its 1989 Resolution, the notion that an income security program like the National Child Benefit could make a major dent in the incidence of child poverty by the year 2000 is unrealistic – though perhaps not for 2010.

In 1998, the maximum Canada Child Tax Benefit – \$1,625 for one child and \$1,425 for the second and each additional child, plus \$213 a year for children under 7 for whom child care expenses are not claimed – will not be a large enough increase to reduce significantly the incidence (i.e., rate) of child poverty, given the huge depth of poverty among families with children (\$9,298 for two-parent families and \$8,345 for one-parent families in 1995). In provinces which create income-tested child benefits of their own, total child benefits will be larger; in BC, for example, a working poor family with one child under 7 could end up with as much as \$3,074 provided the province decided not to recoup any if its costs from the increase in federal child benefits.

However, the rate of poverty is not an appropriate performance indicator for the developmental stage of the National Child Benefit – setting aside the separate issue of whether low income cut-offs are acceptable poverty lines. Because of the huge depth of family poverty as measured by the low in-come cut-offs, a child benefit program which paid the same maximum amount to all low-income families with children, or larger benefits to the lowest-income families, could be judged a failure because it would not lift many families above the poverty line. The Canadian Council on Social Development calculated that only 19 percent of low-income children lived in families within \$1,500 of the poverty line in 1994, while almost half – 46 percent – were in families more than \$4,000 below the poverty line [Canadian Council on Social Development 1997 a:2]. Yet a child benefit with a different design, which focussed its largest benefit on families near the poverty line, could be judged a success if its impact on the incidence of poverty were used as the standard of evaluation. The former program would improve the living standards of all poor families, while the latter would help only the near-poor. Moreover, a program which moved many families just above the poverty line would leave them not much better off than before.

Depth of poverty is a better measure of the impact of income security programs because it looks at improvements in the living standards of poor families. The federal and provincial governments were careful to specify that the National Child Benefit aims at reducing the depth of poverty. Incremental improvements in the National Child Benefit should register a decline in the total and average depth of poverty for families with children. In a study commissioned by the British Columbia government, Michael Mendelson estimated that the BC Family Bonus has reduced the total poverty gap for working poor families in BC by 19 percent, and for single-parent working poor families by 26 percent [Mendelson 1997].

As the National Child Benefit System matures and if the federal government raises the maximum payment substantially, we can expect to achieve some gains in reducing the incidence as well as depth of poverty. However, even then both measures should be employed. A child benefit alone cannot be expected to raise all low-income families above the poverty line; the cost would be staggering – in the order of \$15 billion according to the Canadian Council on Social Development [Canadian Council on Social Development 1997a: 2]. A wide range of other social and employment programs are required as well. Moreover, an increase in unemployment can swell the ranks of poor families with children and swamp increases in income programs such as child benefits, so reliance on the child poverty rate alone as the gauge of effectiveness would doom the National Child Benefit to evaluative failure.

Quantitative poverty measures alone cannot fully assess the impact of the National Child Benefit System. If provinces reinvest in non-income programs, such as social services and in-kind benefits, these programs will have no direct impact on poverty as measured in income terms. Yet they doubtless will improve the living standard of families which benefit from them. Estimates of the impact of child benefits on the incidence and depth of poverty are not enough; governments and social organizations should develop additional performance indicators for the National Child Benefit System and for other anti-poverty programs and policies. It is imperative that the views of low-income families with children form a significant part of the evaluation of the National Child Benefit System.

The federal government did not implement the full increase in child benefit spending in 1997, instead opting for a two-year phase-in with the Canada Child Tax Benefit coming on stream by July 1998 (“or earlier if possible”) [Department of Finance Canada 1997: 16]. The stated reason was to allow sufficient time for negotiations with

the provinces over the reinvestment agreement and to work out other administrative and data-sharing arrangements. A more cynical version is that Ottawa wanted to make sure that all provinces signed onto the National Child Benefit System before the federal government upped its own ante.

4. ‘*an inadequate down payment*’

- ‘\$600 million in new federal spending is a drop in the bucket – compared to the billions of dollars the federal government spends on other programs, the additional billions the federal (and provincial) governments hand out in tax expenditures, and the \$7 billion Ottawa is cutting out of federal social transfers to the provinces ‘
- ‘Ottawa has the money to move much faster in investing in a substantially larger Canada Child Tax Benefit in view of its fast-disappearing deficit’

Ottawa currently spends \$5.1 billion on the Child Tax Benefit and the provinces an estimated \$2 billion on welfare for children, for a total of \$7 billion. The cost to boost the Canada Child Tax Benefit to the \$2,500 per child level required to displace welfare benefits for children (in most provinces) is around \$2 billion.

Between the \$250 million of additional spending announced in the 1996 Budget and the \$600 million more promised in the 1997 Budget, the federal government is increasing its child benefits budget by \$850 million, which will bring federal spending to close to \$6 billion in 1998 – \$1 billion short of the \$7 billion required to reach the \$2,500 per child mark to replace welfare benefits for children.

Is \$850 million an adequate down payment on the National Child Benefit System? In the context of the political climate in Ottawa, which

is only now beginning to emerge from the deep freeze of expenditure restraint, \$850 million is by no means a trivial amount. It is a 43 percent down payment on the first-stage objective of \$2 billion more to build the platform for an effective National Child Benefit System. Moreover, during the federal election campaign, the Liberals committed themselves in Red Book Two to at least double the \$850 million “as resources become available” [Liberal Party of Canada 1997: 60]. Of course, we all remember Red Book One’s commitment to spend up to \$720 million more on child care if economic growth exceeded three percent a year – and if provincial agreement could be obtained. But at least the election pledge gives social groups another marker to shoot at, and this time round the federal government will not be able to claim lack of cooperation on the part of the provinces.

Since the federal government is expected to reach a surplus situation next year, it does have the money to invest in the Canada Child Tax Benefit. Ottawa should reach the replace-welfare-benefits-for-children level of \$2,500 per child by 2000, which would cost around \$7 billion in total. In 1984, when the federal child benefits system was made up of Family Allowances, the children’s tax exemption and the refundable child tax credit, the total cost came to \$6.7 billion (in 1997 dollars) – only \$300 million short of what a \$2,500 per child Canada Child Tax Benefit would cost! The extra \$2 billion needed to create a replace-welfare-benefits-for-children Canada Child Tax Benefit amounts to just 1.9 percent of total federal program spending. The National Council of Welfare suggested that the federal government allocate half of \$10 billion in “wasteful tax expenditures” to social programs and the other half to reduce the deficit (National Council of Welfare 1997a: 3).

The \$850 million ‘new’ federal spending’ already committed seems a paltry sum in view of

the \$7 billion that Ottawa is cutting from its social transfer payments to the provinces under the CHST. Even \$2 billion in additional spending on child benefits would only partially recoup what the federal government cut from social transfers to the provinces. Of course, the federal position is that reductions in federal social spending were required to help put the nation’s fiscal house in order. Most social groups differ with this prescription, or at least the kind of medicine and the way it has been administered. But all the more reason to push for continuing increases in the Canada Child Tax Benefit and other social programs in the coming years of federal surpluses.

5. ‘the National Child Benefit is infected with the partial deindexation virus’

The wording of this complaint is my own. Caledon fully shares the views of other social organizations that child benefit reform should remedy this failing of the current system. Over the years, at the National Council of Welfare and now at Caledon, I have been the most persistent and vociferous critic of partial deindexation as a mechanism of what I term ‘social policy by stealth’ [Battle 1990]. The Tories introduced the stealth virus into federal child benefits, the personal income tax system and the refundable GST credit; so far, the Liberals have left the lucrative machinery of stealth intact.

Partial deindexation has gradually eroded the value of federal child benefits and offset increases that the Conservatives made to the refundable child tax credit in the mid-1980s. The same will happen to the Canada Child Tax Benefit if it remains partially indexed; a portion of its gains will be lost to inflation each year. The inflation-over-three-percent formula that has been in operation for over a decade means that the value of child benefits declines by three percent a year if inflation is over three percent or by the amount of

inflation if the cost of living increases by less than three percent. Moreover, partial deindexation also steadily lowers the real level of the net family income threshold for maximum benefits. Maximum payments are targeted further and further down the income ladder over the years, fewer low-income families receive the maximum amount and the 'disappearing point' – the income level where eligibility for partial benefits ends – also falls with each passing year, gradually moving from upper-middle-income to middle-income families. Every family loses from partial deindexation, but its impact is regressive – the decline in benefits hits families with low income hardest in relative terms.

It is essential that the federal government reindex its child benefits. However, that progressive change would increase Ottawa's costs, since partial deindexation is estimated to save \$170 million a year [Canadian Council on Social Development 1997a: 3]. Moreover, the federal government will be reluctant to give up the fiscal advantages of a stealthy automatic cuts mechanism which brings little if any political pain since no one outside of a handful of social policy experts and advocates understands what is going on.

Provincial welfare benefits, including those paid on behalf of children, are not indexed at all. Provincial governments reap even larger fiscal rewards from this policy of stealth than if they followed the federal practice of at least partially indexing benefits. Simply by freezing parents' welfare rates, provincial governments can claim to be honouring their commitment not to leave welfare families with children worse off after child benefit reform, while in reality steadily reducing the value of welfare incomes. I doubt that the provinces can be persuaded to index their welfare rates or their income-tested child benefits. However, social advocates still should make that case on the basis of the supposed commitment of the

provinces not to leave welfare families worse off as a result of the National Child Benefit System.

This point raises another argument in favour of the National Child Benefit System. To the extent that welfare families receive more of their child benefits from the federal government – and eventually most, if not all – then they will be better off because Ottawa at least partially indexes its child benefits. If social groups can convince the federal government to fully index the Canada Child Tax Benefit, then welfare families will be even better off than they are at present.

6. *'the National Child Benefit will result in an even more polyglot child benefits system with no national standards'*

The 'reinvestment agreement' is a sort of back-door, softly-softly form of conditional cost-sharing. The provinces agree to spend their federally-enabled savings on welfare benefits for children on other programs for low-income families with children. As noted earlier, however, I think the reinvestment deal will give the provinces wide latitude about where and how to spend their savings from federally-displaced welfare benefits for children. It is hard to imagine the provinces, flush with their freedom of action in the new era of the Canada Health and Social Transfer, agreeing to any process which tried to develop and apply conditions or standards to their various programs and services for low-income families with children. Moreover, the reinvestment deal likely will be time-limited, fading away once the federal government has raised the Canada Child Tax Benefit to a level considered sufficient to displace welfare benefits for children.

The real hope for national standards in child benefits lies with the federal government. Over time, Ottawa will assume a growing share of the income component of National Child Benefit

System and should raise that level even higher than the replace-welfare-benefits-for-children mark to cover the cost of raising a child for low-income families. There is no better way to ensure national standards than through a federal income security program. Granted, Quebec has always invested more than other provinces in family policy and is unlikely to give up its new Integrated Child Allowance if Ottawa raises its national platform over the years. (BC, Saskatchewan and New Brunswick also will have to decide how to adjust to a rising federal child benefit foundation.) But the benign result would be a higher combined federal-Quebec level of child benefits for Quebec's low-income families, not a lower national (i.e., federal) standard for all low-income families with children.

The federal Working Income Supplement has not worked. Experience will show if the provinces are better able to design and deliver earnings supplements. Quebec already provides such a program, though the take-up apparently is low; Alberta, Saskatchewan and New Brunswick are introducing versions of their own. Provinces can design earnings supplements that mesh with their minimum wages and welfare systems and that take into account the number and distribution of low-earning families. Conceivably, they also can make use of the existing welfare administrative machinery to help adjust for fluctuating family incomes that cannot easily be handled by the federal child benefits system which relies upon the annual income tax return for assessing family income.

Provincial wage supplements as well as in-kind benefits and social services considered to be part of the National Child Benefit System doubtless will continue to be diverse and not subject to any kind of enforceable national standards. Whether the National Child Benefit System will increase, leave the same or decrease the variability of provincial child benefits (cash and services) is an

empirical question for future study. Perhaps provinces will look closely at and learn from each others' experiences, though that sharing of knowledge will not necessarily lead to less variation in the nature and quality of their various programs. But I doubt that the National Child Benefit System will lead to any more variability in provincial programs than already exists under the Canada Health and Social Transfer. However, to the extent that it increases the federal role in (cash) child benefits, the National Child Benefit System will improve existing national standards in income support for low-income families with children.

7. 'Canada needs a comprehensive plan with a wide range of social and economic measures – a national child poverty project – not just a National Child Benefit'

I could not agree more, and along with social advocates have made this case repeatedly over the years. However, the National Child Benefit System should be judged on its own merits or lack thereof, not faulted for failing to be part of a comprehensive, multi-faceted and concerted strategy against child poverty. If governments claim that the National Child Benefit System is a sufficient response to child poverty – they would be foolish to do so – then it is governments, not child benefits, that should take the heat.

Conclusion

Social groups have every reason to be sceptical about any social policy initiative in this era of reduction-by-'reform.' However, they should not be so quick to throw the baby out with the bath water. The test will be how the venture develops over the coming years. Social groups must be vigilant and conduct their own

assessment of the development of the National Child Benefit System to provide Canadians with a critical counterpoint to government evaluations.

If the National Child Benefit System stops at the 1998 level of the Canada Child Tax Benefit and the associated provincial ‘reinvestment,’ it will amount to a useful re-configuration and modest enrichment of federal child benefits and more money for provincial programs for low-income families – but will fall far short of its potential. The dream of an integrated child benefit cannot be achieved if the provinces still deliver substantial benefits for children through their welfare systems.

The federal government should and can boost child benefits to deliver by the year 2000 the maximum \$2,500 per child level required to displace welfare benefits for children. But that is only the first objective. By 2010 at the latest, Ottawa should reach the second major goal of a \$4,000 per child benefit which would cover (by conservative estimate) the cost of raising a child for low-income families. Then the federal government will have created for all poor children what it has already achieved (however inadequately) for all poor seniors – a *de facto* guaranteed income that will significantly reduce the risk and depth of poverty. Such a National Child Benefit would provide the necessary platform on which to mount effective social services, employment programs, community supports and the many other weapons needed to wage a real war on family poverty.

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