

Missing a Chance for a Solid Punch at Poverty*

The 1992 federal budget's child benefits proposal is being touted by its proponents as a victory of fiscal and social responsibility over a defunct and wasteful philosophy of universal social security. Family allowances – the epitome of the universalist approach – will be replaced by a “new child tax benefit” intended to provide greater assistance to low- and modest-income families. At a time when child poverty is on the resurgence, sacrificing universality is for social programs targeted to the poor may appear to be a fair and sensible route to reform.

There is both less and more to the proposal than meets the eye, especially one that reads the less-than-candid White Paper on Canada's New Integrated Child Tax Benefit that accompanied the budget.

Back in 1984, the Liberals handed the Conservatives a five-program collection of child benefits which was irrational, unfair complex and inadequate. The Tories improved it worse. After making no fewer than 11 changes over the course of five budgets, they ended up with a Rube Goldberg-style child benefits system that is just as irrational and even more unfair, complex and inadequate.

The White Paper acknowledges some of these shortcomings and proposes yet another reform. Family allowances and the non-refundable credit will be scrapped in order to raise the refundable child tax credit from \$601 to \$1,020 a year as of 1993, though the present \$213 supplement for children under seven will remain. Working poor parents earning in the \$3,750 to \$20,921 range also will receive a new benefit – the “earned-income supplement,” an American import – worth up to \$500 a year. The child care expense deduction will rise from a maximum \$4,000 to \$5,000 for children six and under and from \$2,000 to \$3,000 for children seven to fourteen.

The new child benefit has only two advantages over the present system. When introduced in 1993, it will provide a \$500 increase for working poor families. It also will get rid of the clawback on family allowances, a give-to-the-rich/take-from-some-of-the-rich experiment that future historians should characterize as the surrealist period of the Department of Finance.

The fatal flaw of the brave new child benefit is that it will be only partially indexed. This giant step backward in social policy was

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first taken in Michael Wilson's maiden 1985 budget, and has since siphoned about \$3.5 billion from child benefits. By retaining this regressive mechanism, which uses inflation to impose automatic and hidden cuts each year; Mr. Mazankowski will ensure that the value of child benefits will fall in future. Partial indexation especially hurts the poor; the working poor will be hardest hit, since both the refundable child tax credit and the earned-income supplement will shrink steadily.

The new scheme poses some new problems regarding the contentious principle of fairness. The proposal has been designed so that working poor and middle-income families will get a modest increase in benefits, although inflation will soon erase those gains. But welfare families – the poorest of the poor, subsisting on incomes far below the poverty line – will not get one cent more from the plan.

The White Paper justifies this invidious distinction on the grounds that working poor parents have employment-related expenses which those on welfare do not face, and claims the earned-income supplement will reinforce their incentive to work. While any support for the working poor is welcome, it is doubtful that \$500 will be much of a work incentive, especially since it will be included in the new child tax credit that is so "simple" that the government will have to calculate it for families.

All taxpayers – the working poor included – have been paying hidden tax increases since 1985 because the income tax system no longer is fully protected against inflation. A fairer and more effective alternative to the earned-income supplement would be a low income tax credit which removed the income tax burden from all poor Canadians, including those without children.

The White Paper continues the Conservatives' schizophrenic style of enriching tax breaks

for the rich while singing the song of targeting-to-the-poor. Wealthy families with child care costs will gain more from the larger child care expense deduction than they will lose from the elimination of the non-refundable child tax credit, so they will enjoy an increase in their benefits. Yet, welfare families will see no improvement in their child benefits. This is fair?

A scheme which does nothing to improve child benefits for welfare families, leaves working poor families thousands of dollars below the poverty line, and declines in value each year can hardly be hailed as a powerful anti-poverty weapon. Factor in annual inflation-induced cuts in GST credits for all low-income Canadians and hikes in income taxes for the working poor and the war on poverty starts to look pretty phoney.

While a substantially increased child benefit is only one among a range of social and economic policies needed to combat poverty – including the now-discarded promise of a decent child care system – it would be a quick and effective way of helping poor families. However, boosting payments to lower-income families could impose a political as well as fiscal cost because it would require a sharply targeted program which slashed or eliminated child benefits for middle-income as well as wealthy families. Such a program would require extra funds, which would be obtained by increasing the top income tax rate so that upper-income taxpayers without children help pay for better child benefits for the poor.

Ken Battle

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1600 Scott Street, Suite 620
Ottawa, Ontario, Canada K1Y 4N7
phone: (613) 729-3340 fax: (613) 729-3896
e-mail: caledon@caledoninst.org
website: www.caledoninst.org