



OTTAWA SHOULD EXPAND THE CANADA CHILD TAX BENEFIT

**for presentation to
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Children and Youth at Risk**

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Argument

Federal government should expand the Canada Child Tax Benefit beyond its 2004 level to build a strong system of income support and security for Canadian families with children

- **build on success of NCB**
- **allay criticisms of NCB from social groups**

Progress to date under the National Child Benefit reform

1. has launched *fundamental structural reform* of federal and provincial income security system in accordance with new post-welfare state social policy principle of replacing outmoded universal family allowances and needs-tested welfare with progressive income-tested benefits

- **gradually moving child benefits out of welfare**
- **all poor families – including those on welfare – better served by a portable, nonstigmatizing, (now) fully indexed and income-tested child benefit that holds out promise of future improvement**
- **progress being made in reducing that part of the ‘welfare wall’ caused by differential child benefits**
 - **families moving from welfare to workforce lose thousands of dollars in cash and in-kind benefits for their children – at same time as they face employment-related expenses (transportation, clothing, child care) and see their typically low wages further reduced by payroll taxes (CPP contributions, which are rising, and EI premiums) and federal (and in some cases provincial) income taxes**
- **governments should build on NCB by expanding scope of reform to adult benefits (income and services) to replace outmoded welfare and perennially troubled Employment Insurance**

2. increases in federal child benefits

- **restoration and real increases in total expenditures (Figure 1)**
- **successive federal increases have fuelled continuing provincial reinvestments in services and income programs for low-income families**
- **substantial increases in federal child benefits for low-income families (Figure 2)**

Figure 1 Federal child benefit expenditures, in constant dollars, 1984-2001

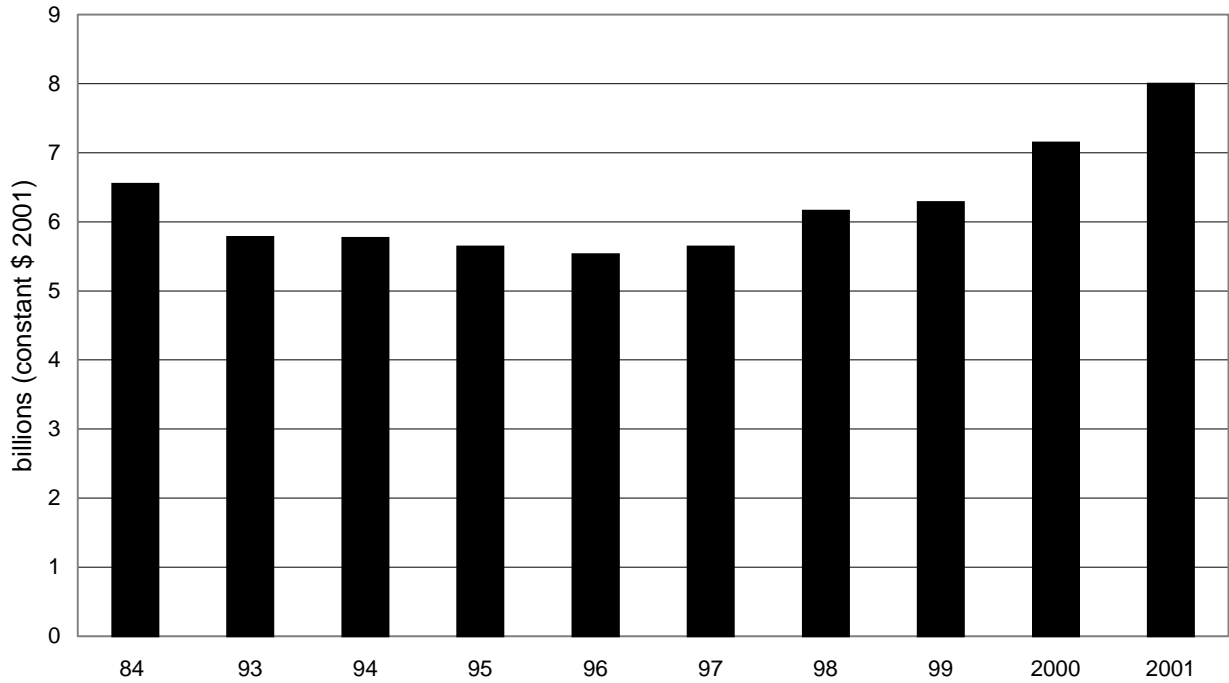
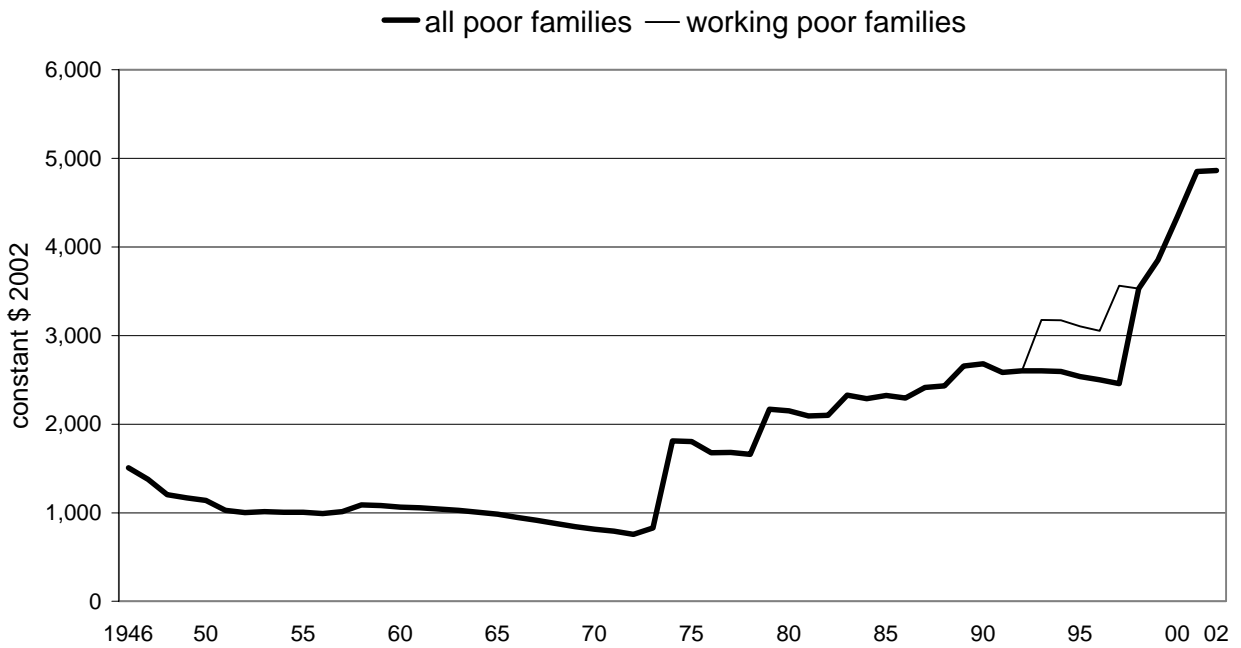


Figure 2 Federal child benefits for low-income families with two children, 1946-2002



3. advances new federal-provincial ‘partnership federalism,’ Social Union Framework Agreement

- **at political level (pragmatic agreement between two levels of government)**
- **at officials level (federal-provincial working group)**
- **voluntary agreement providing provincial flexibility and choice: a few provinces (New Brunswick and Newfoundland in 1998-99, New Brunswick in 1999-2000, New Brunswick, Newfoundland and Manitoba in 2000-01) chose to pass along rather than deduct increases in federal child benefits to welfare families**
- **though Quebec has not participated officially in National Child Benefit, it has in policy and programmatic terms**
- **separate track for First Nations: success?**

4. has levered provincial initiatives in family policy

- **investment as well as reinvestment**
- **broad, eclectic and policy-desirable mix of income and services for low-income families (not limited to working poor – welfare families too)**

5. has achieved administrative efficiencies and savings (re National Child Benefit’s objective of reducing duplication and overlap of federal and provincial programs) by using federal income tax system to deliver most new provincial income-tested child benefits on behalf of provinces

6. federal government reindexed Canada Child Tax Benefit as of 2000

- **stabilizes increases (no more give-with-the-one-hand, take-with-the-other shell game of benefit increases subverted by partial deindexation)**
- **stops de-universalization by stealth**

7. federal government has made small but significant progress in restoring child benefits for non-poor families

- **will achieve reuniversalization by stealth (from 80 percent+ to 90 percent+ of families by 2004)**

Problems experienced by the National Child Benefit reform

1. most social advocates oppose NCB's core policy rationale of raising total (federal-provincial) child benefits of working poor families up to level of welfare families

- **NCB launched after years of overt and covert cuts to welfare (both adult and children's benefits)**
- **critics appear to reject 'welfare wall' argument of National Child Benefit, do not acknowledge fact that old (pre-NCB) system discriminated against working poor families**

2. NCB poorly understood

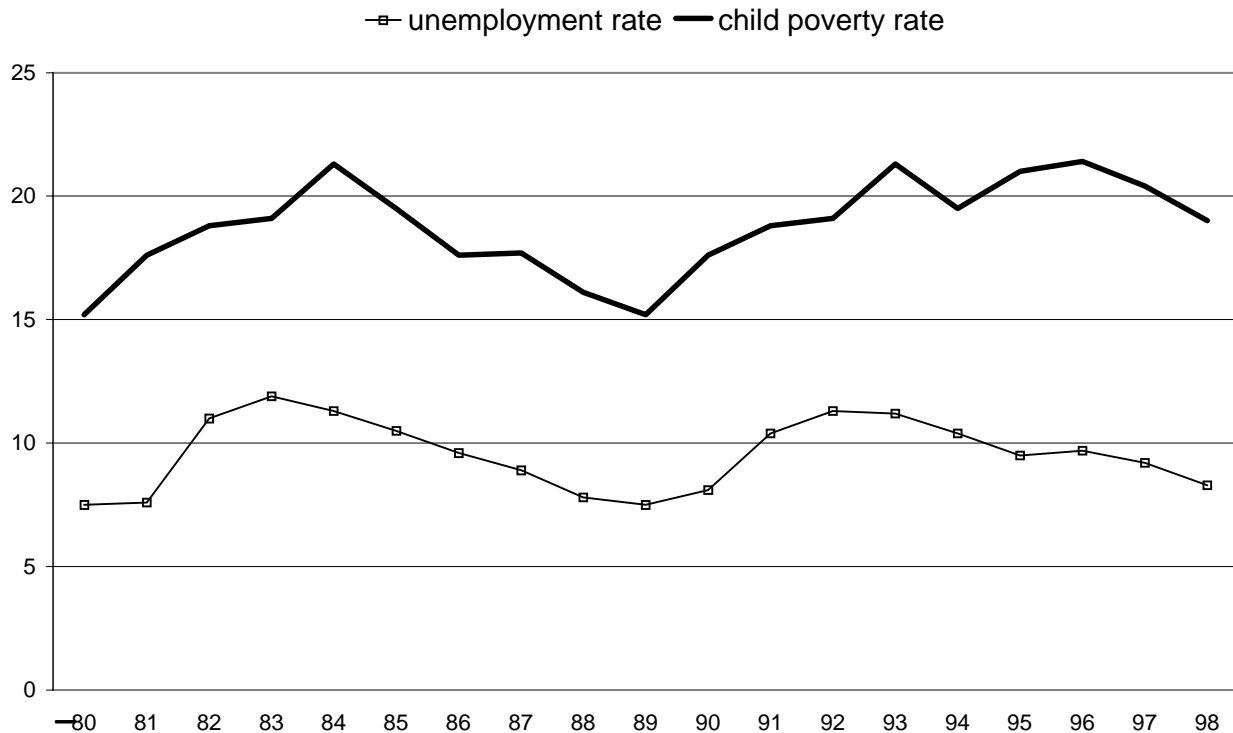
- **old system was irrational and not well understood (partly because many changes made to it over past few decades)**
- **CCTB's two-tiered structure and arcane terminology (base CTB, NCBS)**

- gradual and complex implementation of CCTB
- complementary changes to federal and provincial programs hard to explain readily

3. danger that politicians want to claim too much too soon for NCB

- NCB Progress Report 2000's misleading message from Ministers listing implying that reducing incidence of poverty is an objective and that NCB is helping reduce incidence of child poverty
- incidence of poverty not an appropriate 'direct indicator' for evaluation of NCB, could jeopardize reform (e.g., child poverty rate could rise again even if governments spent more on NCB) – Figure 3

Figure 3 Child poverty and unemployment rates, 1980-1998



4. criticisms by some economists – afflicted with marginal tax rage that higher effective marginal tax rates will create work disincentive

- **qualitative and quantitative research required to test this unproven allegation**
- **ignores impact of NCB on disposable income, which is more important than effective marginal tax rate**

5. special reinvestment issue in Ontario

- **municipalities welcome the money (get 20 percent of Ontario total) as useful windfall since they are struggling to cope with being given responsibility for a major welfare program (Ontario Works); province sets guidelines requiring them to invest in certain areas such as early intervention, child care, employment supports and prevention – e.g., Ontario Works Child Care, LEAP (Learning, Earning and Parenting)**
- **but two municipalities (London and Toronto) are going their own way; London directing its portion of provincial reinvestment to welfare families indirectly via Emergency Fund operated by Boys and Girls Club, while Toronto using the money for Shelter Fund as part of Housing strategy**
- **provincial NDP has launched a ‘stop the clawback’ movement, urging municipal councils to re-examine their reinvestment policies**

6. limited progress in restoring child benefits for non-poor families

- **Figures 4-6 illustrate impact of child benefit changes since mid-1980s on families at different income levels**
- **NCB not intended to address horizontal equity issue, though CCTB nonetheless is making modest improvements to the base Child Tax Benefit that are benefitting non-poor families**

7. increases to CCTB cannot fully displace welfare benefits on behalf of children throughout Canada

- adult equivalent payment for first child in single-parent families on welfare
- provincial variability in welfare rates

Figure 4 Federal child benefits, couples with two children (one under 7, one 7-17), 1984 and 2004

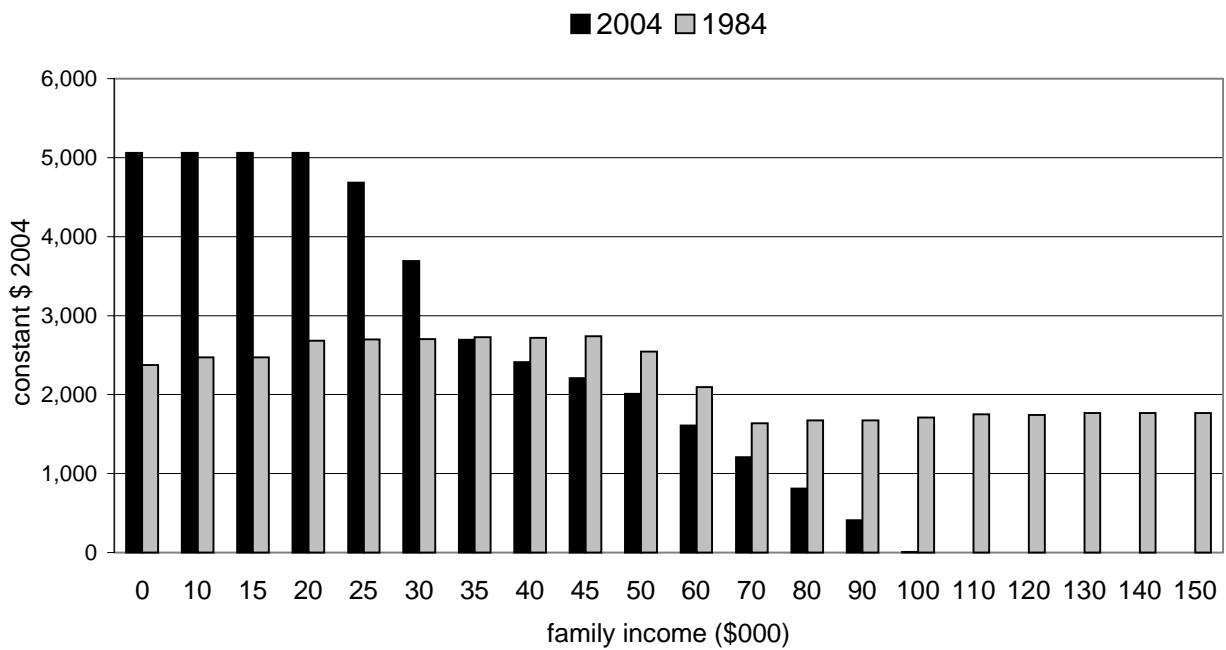


Figure 5 Federal child benefits as percentage of family income, 1984 and 2004

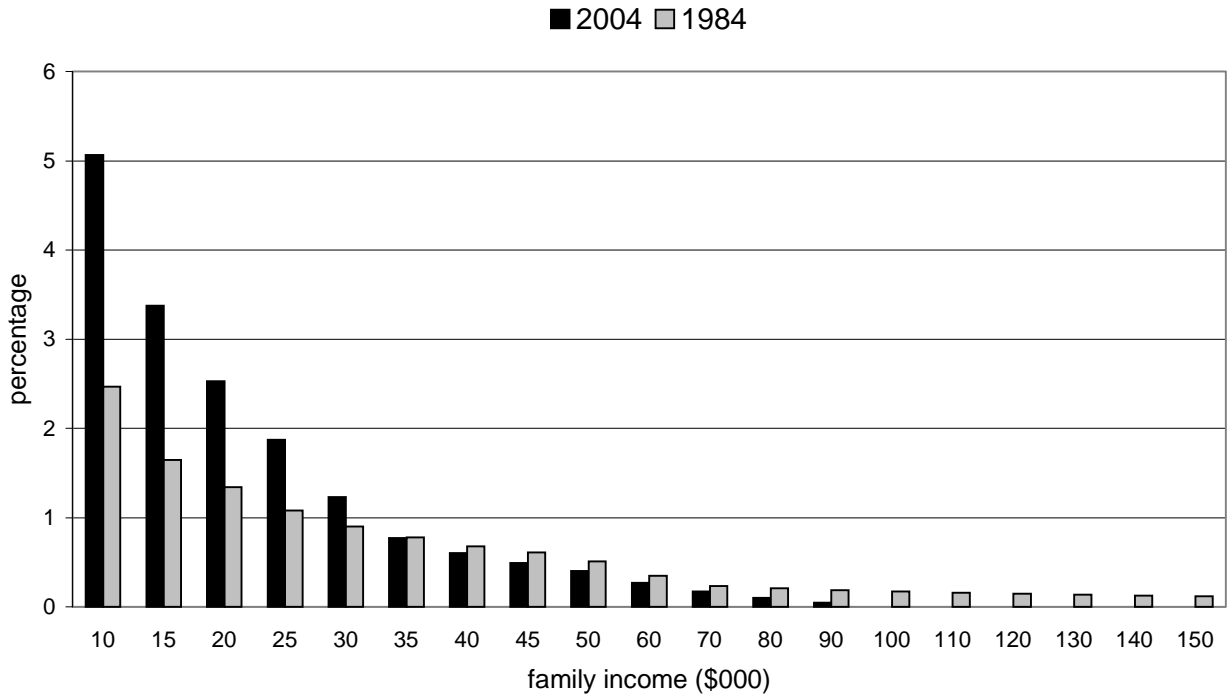
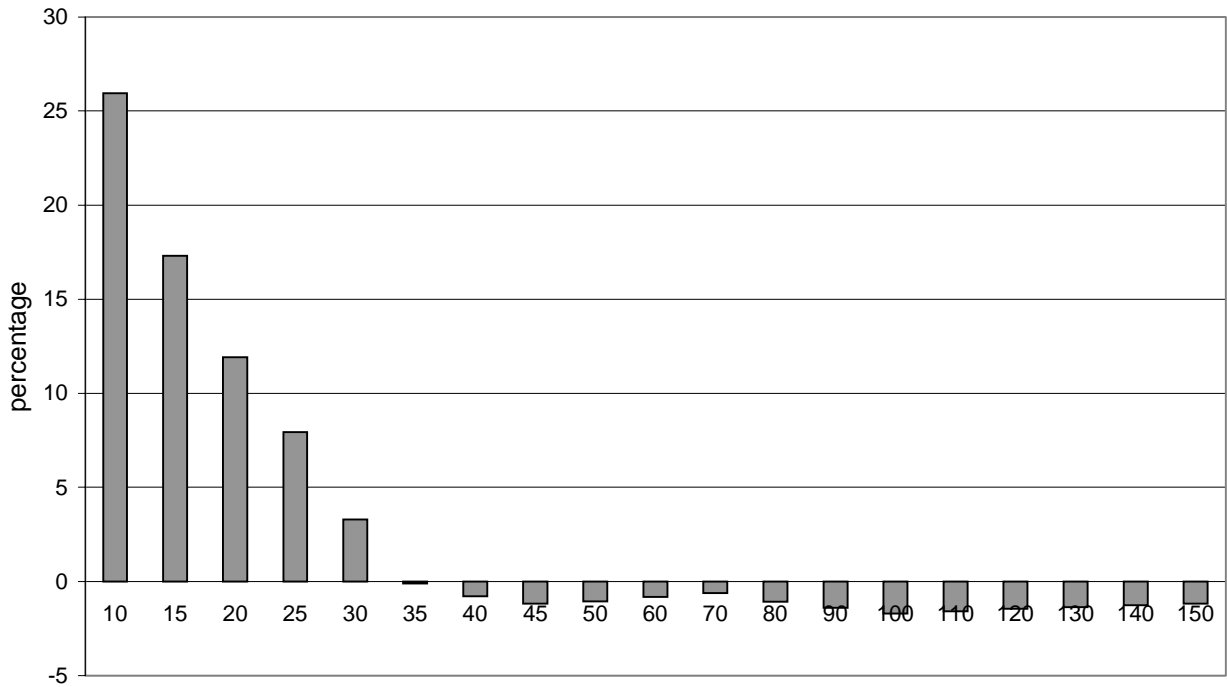


Figure 6 Change in child benefits as percentage of net family income, 1984/2004



Why Ottawa should expand the Canada Child Tax Benefit

1. better achieve twin fundamental child benefit objectives of anti-poverty (combat child poverty) and horizontal equity (help recognize childrearing costs to parents, which benefit society at large)

- **increase child benefits for all low-income families to maximum \$4,200, including those on welfare (anti-poverty objective)**
 - **would produce big enough bang to reduce incidence as well as depth and duration of poverty**
 - **single-parent families (especially the large majority led by women) would be relative winners because have low average incomes**
- **restore/improve child benefits for non-poor families, in progressive geared-to-income fashion (horizontal equity objective)**

2. would serve third (lost) objective of child benefits – economic stabilization

- **ease impact of recession and unemployment on families with children**
- **counter growing inequality in market incomes**

3. enhance parental choice

- **one-earner couples with children in which one parent chooses to remain in home would benefit disproportionately (because they have lower average incomes than two-earner couples, so would see bigger gains from boosted CCTB)**

- **more parents might choose to work in home or switch from full-time to part-time work while children are young**

4. redistributive impact

- **strengthen tax/transfer system's capacity to offset market income inequality**
- **poorer provinces would gain relatively more from larger national CCTB**

5. would fully displace remaining welfare child benefits

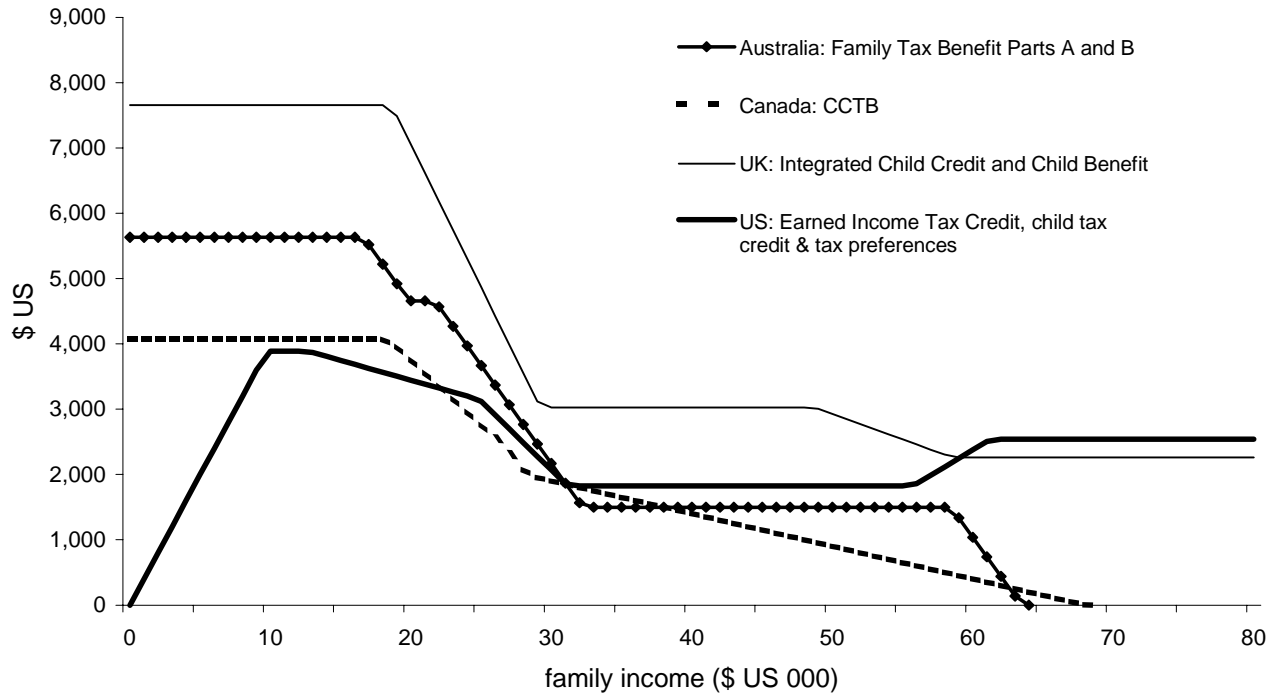
6. would advance desirable trend in division of labour over social policy between federal and provincial governments

- **Ottawa would assume even greater role income security**
- **thus freeing provinces to devote full resources and energies on health, education and social services**

7. would raise Canada up to level of UK and Australian child benefit systems

- **new international comparative study by Caledon Institute (*Benefits for Children: A Four Country Study*) finds that UK and Australia already pay much larger maximum child benefits to their low-income families (Figure 7)**

Figure 7 Child benefits, couples with two earners and two children (one under 5 and one 5-13)



Challenge

political problem in building bigger CCTB

- **federal government (Finance Department in particular) believes the current CCTB is 'enough,' has not bought into argument for a bigger-band income security system for families with children**
- **competing claims on expenditures – other social priorities, environment, competitiveness agenda, etc.**

design dilemmas in building a bigger CCTB

- **not as costly if we were to follow UK and Australia ‘stepped’ designs rather than Canada’s ‘smoother’ design**
- **but stepped designs present problems**
 - **vertical and horizontal inequities (families at end and beginning of ‘cliffs’ have similar income but get much different levels of child benefits, while families at start and end of plateaus have different incomes but get similar child benefits)**
 - **very high effective marginal tax rates on some families**